EXHIBIT JJ

GOVERNMENT OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial Advisory Authority

Municipal Secondary Market Disclosure Information Cover Sheet
Municipal Securities Rulemaking Board (MSRB)
Electronic Municipal Market Access System (EMMA)

THIS FILING RELATES TO A SINGLE BOND ISSUE:

Name of bond issue exactly as it appears on the cover of the Official Statement:

____

____

____

Nine-digit CUSIP* numbers if available, to which the information relates:

____

____

THIS FILING RELATES TO ALL OR SEVERAL SECURITIES ISSUED BY THE ISSUER, OR ALL OR SEVERAL SECURITIES OF A SPECIFIC CREDITOR:

Issuer's Name: **Puerto Rico Highways and Transportation Authority**

Other Obligated Person's Name (if any): ______________________________

Six-digit CUSIP* number(s): **745181, 745190, 745185 (Teodoro Moscoso Bridge)**

TYPE OF INFORMATION PROVIDED:

A. ☐ **Annual Financial Information and Operating Data pursuant to Rule 15c2-12**

Fiscal Period Covered: ______________________________

B. ☒ **Audited Financial Statements or CAFR pursuant to Rule 15c2-12**

Fiscal Period Covered: 2017-18

C. ☐ **Notice of Failure to Provide Annual Financial Information as Required**

I represent that I am authorized by the issuer, obligor or its agent to distribute this information publicly.

/s/ Sebastián M. Torres Rodríguez
Sebastián M. Torres Rodríguez
Puerto Rico Fiscal Agency and Financial Advisory Authority,
as Fiscal Agent for the Commonwealth

Dated: April 30, 2019

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY

(a Component Unit of the Commonwealth of Puerto Rico)

INDEPENDENT AUDITORS' REPORT
AND
REQUIRED SUPPLEMENTARY INFORMATION
AND SUPPLEMENTARY INFORMATION
AND AUDIT OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2018

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Puerto Rico Highways and Transportation Authority
(a Component Unit of the Commonwealth of Puerto Rico):

Report on the Financial Statements

We have audited the accompanying financial statements of the Puerto Rico Highways and Transportation Authority (the "Authority") (a Component Unit of the Commonwealth of Puerto Rico), as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

As described in Note 15 to the basic financial statements, the Authority has not implemented the requirements of Statement No. 73 of the Governmental Accounting Standard Board, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, because the final audited pension information from the Employee Retirement System of the Government of the Commonwealth of Puerto Rico is not readily available. Therefore, the Authority has not recorded its proportionate share of total pension liability, deferred inflows of resources, deferred outflows of resources and pension expense, and the Authority has not recognized the effect of current period changes in the net pension liability as it relates to, deferred outflows of resources, deferred inflows of resources and pension expense for the year ended June 30, 2018.

As described in Note 16 to the basic financial statements, the Authority has not implemented the requirements of Statement No. 75 of the Governmental Accounting Standard Board, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, because the Authority does not have the actuarial information required for the implementation of such statement. Therefore, the Authority has not recorded the total post-employment benefits liability, deferred inflows of resources, deferred outflows of resources and other post-employment expense, and the Authority has not recognized the effect of current period changes in the total post-employment benefits obligation as it related to, deferred outflows of resources, deferred inflows of resources and other post-employment expense for the year ended June 30, 2018.

Accounting principles generally accepted in the United States of America require that the total pension liability, total other post-employment benefits liability and related deferred outflows of resources, deferred inflows of resources, as applicable, be recognized in accordance with parameters established by Statements No. 73 and 75, as well as the effect of current period changes of the respective liabilities that must be recognized in expense during the current period.

In addition, the accompanying notes to the basic financial statements do not disclose the pension related information required by Statements No. 73 and 75. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the effects of the matter described above in the Basis for Qualified Opinion paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2018, and the changes in financial position and, its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

BDO

The Authority's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 4 to the basic financial statements, the Authority has significant recurring losses from operations and does not have sufficient funds available to fully repay its various obligations as they come due, which raises substantial doubt about its ability to continue as a going concern. As further disclosed in Notes 13 and 14 to the basic financial statements, the Authority has defaulted in the payment of principal and interest on multiple bond series and lines of credit. Management's plans in regard to these matters are also described in Note 4.

In addition, as discussed in Notes 3 and 4 to the basic financial statements, on May 21, 2017, the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), at the request of the Governor, commenced a case for the Authority by filing a petition for relief under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act, 48 U.S.C. §§ 2101, *et seq.* (PROMESA) in the United States District Court of Puerto Rico.

The Authority's basic financial statements do not include any adjustments that might result from the outcome of its Title III proceeding or if the Authority is unable to continue as a going concern. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 16 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standard Board, who considers it essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information, then comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the GASB 73 and 75 required supplementary information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

To the Board of Directors of
Puerto Rico Highways and Transportation Authority
(a Component Unit of the Commonwealth of Puerto Rico)

Other Information

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The schedule of expenditures of federal awards on page 65 is presented for purposes of additional analysis as required by Title 2 U.S. Part 200 of the *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The schedule of revenues and expenses by segment on page 67, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedule of revenues and expenses by segment has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BDO

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BDO Puerto Rico PSC

San Juan, Puerto Rico

March 25, 2019

Certified Public Accountants
(of Puerto Rico)
License No.53 Expires December 1, 2021
Stamp E370673 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

The following discussion and analysis of the financial performance and activity of the Puerto Rico Highways and Transportation Authority (the "Authority") provides an introduction and understanding of the basic financial statements of the Authority for the fiscal years ended June 30, 2018 and 2017. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follows this section.

Financial Highlights

The Authority's net position at June 30, 2018 totaled $1,322.5 million as compared to $1,552.8 million at June 30, 2017. Net position decreased by $230.4 million during the fiscal year ended June 30, 2018, as compared to a decrease of $510.7 million during the fiscal year ended June 30, 2017. This reduction is mainly attributable to $205 million non-operating income recorded as a result of the payments of bonds principal and interest made by the insurance company during the fiscal year ended June 30, 2018, compared to $3.4 million in the fiscal year ended June 30, 2017.

The Authority's net capital assets, including assets under the Service Concession Agreements (as defined below), totaled $9,700.1 million at June 30, 2018, as compared to $10,031.3 million at June 30, 2017. Net capital assets decreased by 3.30% at June 30, 2018, when compared with the balance at June 30, 2017.

The total aggregate amount of the Authority's non-current liabilities was $4,957 million at June 30, 2018 as compared to $5,110 million at June 30, 2017, which consisted principally of bonds payable, accrued legal claims, voluntary termination incentive plans, vacation and sick leave and the Authority's net pension liability. The decrease of approximately $153.1 million during the fiscal year ended June 30, 2018 consisted principally of principal payments on bonds payable made by the insurance company. As described in Notes 13 and 23 to the basic financial statements, the Authority has defaulted in the debt service payments on certain of its bonds during fiscal year 2018, and has subsequently defaulted throughout the date of this report.

Financial Statements

The basic financial statements provide information about the Authority's activities. The financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) as promulgated by GASB.

Overview of the Basic Financial Statements

The basic financial statements consist of the: (1) statement of net position, (2) statement of revenues, expenses, and changes in net position, (3) statement of cash flows, and (4) notes to the financial statements. The basic financial statements are prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with GAAP.

Statement of Net Position

The statement of net position reports all financial and capital resources of the Authority. The statement is presented in the format where assets plus deferred outflows of resources equal liabilities plus deferred inflows of resources plus net position. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash or due and payable within one year) and non-current. The focus of the statement of net position is to show a picture of the liquidity and financial health of the Authority as of the end of the year.

The Authority's net position is reported in the following categories:

Net Investment in Capital Assets - This component of net position consists of all capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Although the Authority's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from toll operations, investment income, and transfers allocated annually by the Commonwealth, because the capital assets themselves cannot be used to liquidate liabilities.

Restricted for Debt Service - This component of net position consists of restricted assets for the principal and interest payments of the bonds payable. This restriction is imposed by the bondholders through debt covenants.

Restricted for Construction - This component of net position consists of restricted assets for the specific purpose of paying for construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

Unrestricted - This component consists of net position that does not meet the definition of net investment in capital assets or restricted for debt service or for construction.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses and changes in net position includes: (i) operating revenues, which consist of tolls, train fares, concession agreements, and other operating expenses, such as costs of operating toll roads, the mass transportation system, administrative expenses, and depreciation on capital assets; and (ii) "non-operating" revenue and expenses, such operating transfers from the Commonwealth of Puerto Rico, interest and investment income, interest expense and others. The statement also includes capital contributions and payments received from the Commonwealth and federal government grants. The focus of the statement of revenues, expenses, and changes in net position is the change in net position. This is similar to net income or loss, and portrays the results of operations of the Authority for the entire operating period.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

Statement of Cash Flows

The statement of cash flows discloses net cash provided by or used by operating activities, noncapital financing activities, capital and related financing activities and from investing activities. This statement also portrays the financial health of the Authority in that current cash flows are sufficient to pay current liabilities.

Notes to the Financial Statements

The notes to financial statements are an integral part of the basic financial statements and describe the significant accounting policies, related-party transactions, deposits and investments, capital assets, bonds payable, long-term liabilities, retirement plans and the commitments and contingencies. The reader is encouraged to read the notes in conjunction with the management discussion and analysis and the financial statements.

Financial Analysis of the Authority

Statement of Net Position

The following table reflects the condensed net position of the Authority as of June 30, 2018 and 2017:

	2018	2017
Assets		
Current assets	$ 52,661,902	$ 56,751,152
Restricted assets	330,151,400	146,032,577
Capital assets, net	9,498,896,510	9,831,782,685
Highways and bridge under concession agreement, net	201,181,186	199,488,065
Other non-current asset	-	574,065
Total assets	10,082,890,998	10,234,628,544
Deferred outflow of resources	188,547,931	198,552,783
Total assets and deferred outflow of resources	$ 10,271,438,929	$ 10,433,181,327
Liabilities		
Current liabilities	$ 2,857,469,619	$ 2,611,934,273
Non-current liabilities	4,956,897,757	5,110,043,745
Total liabilities	7,814,367,376	7,721,978,018
Deferred inflows of resources	1,134,587,294	1,158,359,684
Total liabilities and deferred inflows of resources	8,948,954,670	8,880,337,702
Net position		
Net investment in capital assets	$ 2,428,585,264	$ 2,627,479,581
Restricted for debt service	-	35,409,622
Restricted for construction	188,967,170	13,724,992
Unrestricted	(1,295,068,175)	(1,123,770,570)
Total net position	1,322,484,259	1,552,843,625
Total liabilities, deferred inflow of resources and net position	$ 10,271,438,929	$ 10,433,181,327

Current assets decreased by approximately 7.21% to $52.7 million during the fiscal year ended June 30, 2018. The net decrease in current assets of $4 million was principally due to a decrease in cash and cash equivalents.

The total aggregate amount of restricted assets was $330.2 million at June 30, 2018. Cash and cash equivalents and Investments with trustee increased by approximately $185 million during the fiscal year ended June 30, 2018. This increase is mainly due to approximately $159 million received from the Commonwealth for infrastructure projects close to the fiscal year ended June 30, 2018. There were no pledged revenues deposited with the fiscal agent during fiscal years 2017 and 2018. All other restricted assets remained in line with prior fiscal year.

During the fiscal year ended June 30, 2018, capital assets decreased by 3.4% to approximately $9,498.9 million as compared to fiscal year 2017. The decrease was mainly due to the net result of an aggregate increase in construction in process, roads, bridges and equipment, and vehicles of approximately $124 million, net of depreciation expenses of approximately $454 million for the fiscal year ended June 30, 2018.

During the fiscal year ended June 30, 2018, highways and bridges under the Service Concession Agreements (as defined below) increased by 0.8% to approximately $201.2 million as compared to fiscal year 2017. This increase was due to improvements to toll roads PR-5 and PR-22 in the total aggregate amount of approximately $2.5 million made by Autopistas Metropolitanas de Puerto Rico, LLC (Metropistas) net of depreciation expenses of approximately $834 thousand related to the Teodoro Moscoso Bridge.

Deferred outflows of resources decreased by 5.0% to approximately $188.5 million during the fiscal year ended June 30, 2018 as compared to prior year due to the amortization of the deferred outflows related to the unamortized loss on advance refunding of $10 million for the year ended June 30, 2018.

During the fiscal year ended June 30, 2018, current liabilities increased by 9.4% to approximately $2,857 million as compared to fiscal year 2017. Major changes in current liabilities are the following:

Accounts payable and accrued liabilities, including accrued voluntary termination benefits and vacations and sick leave, decreased by 0.50% to approximately $197.3 million during the fiscal year ended June 30, 2018 as compared to the prior fiscal year period. The change is mainly attributable to a reduction in headcount and decrease in the voluntary termination benefits as a result of the payments made during the current fiscal year.

Accrued interest payable increased by 39.7% to approximately $748.3 million during the year ended June 30, 2018 as compared to the prior fiscal year period due to the interest payment defaults on all bonds outstanding and lines of credit with the Government Development Bank of Puerto Rico ("GDB").

Legal claims not related to expropriation and related costs, decreased by 18.8% to approximately \$10.7 million during the fiscal year ended June 30, 2018 as compared to the prior year period. Legal claims related to expropriation of property decreased by (3)% to approximately \$94.1 million. The value of the legal claims was recorded based on advice from legal counsel.

The current portion of bonds payable increased by 28.1% to \$167.4 million during the fiscal year ended June 30, 2018 as compared to fiscal year 2017. As of June 30, 2018, current bonds payable includes \$30.8 million of defaulted bond principal.

During fiscal year ended June 30, 2018, non-current liabilities decreased by 3.0% to \$4,957 million as compared to fiscal year 2017. Bonds payable decreased by approximately \$108 million mainly due to payments made by the insurance company in the amount of \$92.1 million and principal payments made directly by Autopistas de Puerto Rico, LLC (Autopistas) in the amount of \$7.8 million during fiscal year 2018, net of amortization of bonds premiums. Net pension liability remained in line with prior fiscal year 2017 since the Authority has not implemented the requirements of Statement No. 73 of the Governmental Accounting Standard Board, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* because the final audited pension information from the Employee Retirement System of the Government of the Commonwealth of Puerto Rico is not readily available.

Deferred inflows of resources during the fiscal year ended June 30, 2018 decreased by 2.1% to \$1,134.6 million as compared to fiscal year 2017. The decrease of \$23.8 million was mainly due to the net effect of the amortization of \$26.3 million related to the deferred inflows of resources on concession agreements and \$2.5 million of improvements made by Metropistas.

During the fiscal year ended June 30, 2018, the Authority's net position decreased by 14.8% to \$1,322.5 million as compared to fiscal year 2017. The decreased was due to a loss of approximately \$230.4 million after capital grants during the current fiscal year 2018. The largest portion of the Authority's net position was its investments in capital assets net of related debt outstanding used to acquire such capital assets.

Condensed Statements of Revenues, Expenses and Changes in Net Position

The following table reflects a condensed summary of the revenues, expenses, and changes in net position for fiscal years ended June 30, 2018 and 2017:

	2018	2017
Operating revenues:		
Toll and train fares	$ 115,782,781	$ 143,201,988
Other operating income	60,145,420	28,838,089
Concession agreement	34,139,711	54,600,854
Operating revenues	210,067,912	226,640,931
Operating expenses	258,473,137	240,844,771
Depreciation and amortization	454,470,038	452,995,369
Operating loss	(502,875,263)	(467,199,209)
Non-operating revenues/(expenses)		
Operating transfers from the Commonwealth of Puerto Rico	117,087,663	140,339,005
Operating grants from U.S. Federal Government	20,602,327	32,439,220
Investment income	6,285,511	24,019,326
Other non-operating revenues	204,712,693	3,328,741
Interest on bonds and lines of credit	(327,441,300)	(336,671,394)
Other non-operating expense	(44,493)	(51,498)
Total non-operating revenues/(expenses)	21,202,401	(136,596,600)
Loss before capital grants	(481,672,862)	(603,795,809)
Capital grants (U.S. Federal and Commonwealth)	251,313,496	93,101,796
Change in net position	(230,359,366)	(510,694,013)
Net position at beginning of year	1,552,843,625	2,063,537,638
Net position at end of year	$ 1,322,484,259	$ 1,552,843,625

Operating revenues, which consisted of toll and train fares, concession agreements and other operating revenues decreased by 7.3% to $210.1 million during the fiscal year ended June 30, 2018 as compared to fiscal year 2017. This decrease is the net effect of the following:

a. Decrease in toll and train fares of $27.4 million is mainly attributable to the effects of hurricane Maria in September 2017, which forced the closing of the Urban Train for various months. The toll collection revenue was also impacted by the uncollected tolls during the period without power.

b. The increase in other income of approximately $31.3 million was mainly due to penalties and fines paid by highways users during the period post hurricane Maria.

c. The decrease in concession revenue of approximately \$21.3 million during the current fiscal year was mainly due to the early redemption of the Teodoro Moscoso Bonds in the total aggregate amount of approximately \$21.9 million in fiscal year 2017 while there were no early redemptions in the current fiscal year. As described in Note 11, the Teodoro Moscoso bonds are paid by Autopistas (defined below) and recorded as concession revenue.

Operating expenses increased by 13.0% to approximately \$258.5 million during the fiscal year ended June 30, 2018 as compared to fiscal year 2017. The increase in operating expenses of approximately \$17.6 million during the current fiscal year was the aggregate effect of: (i) a decrease in salaries and related benefits of approximately \$10.8 million, as a result of the reduction in headcount which in turn is due to the net effect of the eligible employees that elected the benefits of the pre-retirement Act 211; a decrease in the Authority's pension expenses of \$21 million given that the Authority has not implemented the requirements of Statement No. 73 as described in Note 15 to the financial statements; an increase in toll highways administration of approximately \$10.0 million due to the unpaid tolls assumed by the Authority for the highways under the concession agreements with Metropistas and Autopistas, and municipality of Guaynabo toll; and the effect of the emergency repairs post hurricane Maria in the amount of \$46.0 million.

Operating transfers from the Commonwealth of Puerto Rico decreased as a result of a reduction in amounts allocated by the Commonwealth when compared to fiscal year ended June 30, 2017. As discussed in Note 5 to the basic financial statements, starting on November 30, 2015, the Governor issued a series of executive orders directing the Treasury Department of the Commonwealth of Puerto Rico (the Treasury Department) to retain certain available resources of the Commonwealth that were conditionally allocated to certain public corporations and agencies, including the Authority, to be used for other essential services pursuant to Article VI, Section 8 of the Constitution of the Commonwealth (commonly referred to as the "clawback"). As a result of the clawback, the Authority did not collect approximately \$299.3 million in operating transfers during the fiscal year ended June 30, 2018. In addition, the Authority received various operating grants from the U.S. federal government in the total aggregate amount of approximately \$21 million, which were mainly used to finance the preventive maintenance of the Urban Train.

Investment income decreased by approximately \$17.7 million during the fiscal year ended June 30, 2018 as a result of gains generated from the cancellation of two guaranteed investment contracts in prior fiscal year ended June 30, 2017. There were no such transactions during the year ended June 30, 2018. In addition, interest on bonds and lines of credit decreased by approximately \$9.2 million during fiscal year ended June 30, 2018 principally due to the reduction in bonds payable outstanding as compared to the fiscal year ended June 30, 2017. Other non-operating expenses consist of a credit loss on deposits with governmental banks.

Other non-operating revenues increased by \$201 million mainly due to the increase in defaults covered by the insurance company during the current year as compared with the fiscal year ended June 30, 2017. The payments made by the insurance company are recorded as non-operating revenues in the statement of revenues, expenses and changes in net position.

The Authority also received capital and operating grants from the U.S. federal government. Capital grants may only be used for the construction of capital assets while operating grants are used to finance preventive maintenance and other operating expenses of other mass transportation systems. Such capital and operating grants amounted to approximately $110.6 million during the fiscal year ended June 30, 2018. In addition, during the year ended June 30, 2018, the Authority received from the Commonwealth approximately $159 million for construction and maintenance of certain roads and bridges.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2018, the Authority had approximately $9,700.1 million in capital assets, net of accumulated depreciation. Capital assets consist of roads, bridges, transportation equipment, buildings, lands, construction in progress, and highways and bridges under concession agreements.

At the end of fiscal year 2005, the Authority started operating the mass rail transportation system for the San Juan metropolitan area known as "Urban Train". The Authority originally incurred approximately $2.42 billion in costs, of which $685.7 million was paid with federal funds. The Urban Train in San Juan consists of approximately 17 km of track running from Bayamón to Santurce. Maintenance services are partially funded with operating grants from the Federal Transit Administration (FTA). Total operating grants received from FTA used for maintenance services and other programs amounted to approximately $14.2 million during the fiscal year ended June 30, 2018.

On September 22, 2011, the Authority entered into a toll road service concession agreement (the Toll Road Service Concession Agreement) with Metropistas, in which the Authority granted Metropistas the right to finance, operate and maintain the PR-22 and PR-5 highways for a period of 40 years. During the 40-year term, Autopistas will have the right to charge and collect the tolls imposed on these highways as more fully described in Note 11 to the basic financial statements. On April 19, 2016, the Authority entered into an amendment of the Toll Road Service Concession Agreement to extend the original term for 10 additional years and to create five bi-directional tolling points on the PR-5 and PR-22 highways.

On December 20, 1992, the Authority and Autopistas de Puerto Rico, LLC (Autopistas) entered into a service concession agreement (as amended in 1992, 2004 and 2009, the Bridge Service Concession Agreement, and together with the Toll Road Service Concession Agreement, the Service Concession Agreements) for the design, construction, operation and maintenance of the Teodoro Moscoso Bridge, a toll bridge that crosses the San José Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Teodoro Moscoso Bridge, which began operating on February 23, 1994 as more fully described in Note 11 to the basic financial statements. Refer to Note 11 for other concession provisions.

Effective as of July 1, 2017, the Authority entered into a new contract with ACI-Herzog for the purpose of operating and maintaining the Urban Train. The contract will expire in 15 years on June 30, 2032, unless the parties exercise an option to extend the term for an additional two periods of not less than 5 years, as long as the entire term does not exceed 25 years.

Debt Administration

As of June 30, 2018, the total aggregate principal amount of the Authority's bonds outstanding (net of unamortized premiums) amounted to approximately $4,426 million. On January 17, 2018, Moody's Investors Service (Moody's) lowered the Authority's senior debt rating to 'Ba3' from 'Ba1' and the insurance financial strength rating of National Public Finance Guarantee Corp. (National) to 'Baa2' from 'A3'. As a result, the Insured Rating on Moody's rated securities that are guaranteed by National and MBIA were also lowered to the related insurer ratings.

On March 2, 2018, Standard & Poor's Global Ratings (S&P) discontinued its "D" unenhanced rating on the Authority's Highway Revenue Bonds, Highway Revenue Refunding Bonds, Transportation Revenue Bonds, Transportation Revenue Refunding Bonds, and Subordinate Transportation Revenue Bonds.

The Authority also had approximately $1,733.7 million of lines of credit outstanding with the GDB that were in default because of lack of payment and remain in default as of the date of these basic financial statements.

On July 3, 2017, the Authority defaulted on the debt service principal amounting to $122.9 million. In addition, the Authority defaulted interest debt service payments totaling $221.5 for the fiscal year ended June 30, 2018. Without the taxes and other revenues conditionally allocated by the Commonwealth, the Authority has been unable to make the scheduled payments on its outstanding bonds and fund its reserve accounts accordingly.

CURRENTLY KNOWN FACTS

GOING CONCERN

The Authority's basic financial statements as of and for the fiscal year ended June 30, 2018, have been prepared assuming that the Authority will continue as a going concern. Therefore, these basic financial statements assume the liquidation of assets and liabilities in the ordinary course of the Authority's operations and do not include adjustments that may be required if the Authority is unable to continue as a going concern.

As explained in Note 4 to the financial statements, the number of uncertainties facing the Authority, the lack of sufficient resources to pay its liabilities as they become due and the proceedings initiated under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act, 48 U.S.C. §§ 2101, et seq. (PROMESA)—as explained in Notes 3 and 4 to the basic financial statements—have led management to conclude that there is substantial doubt as to the ability of the Authority to continue as a going concern.

HURRICANES IRMA AND MARIA

On September 20, 2017, Hurricane Maria made landfall in Puerto Rico, bringing sustained winds of 155 miles per hour and significant rainfall over a 30-hour period. Hurricane Maria crossed Puerto Rico diagonally, entering through the Southeast and exiting through the Northwestern region. The hurricane caused catastrophic destruction in Puerto Rico, including severe damage to the electric power system, and left the island completely without power. Only two weeks prior to Hurricane Maria, Hurricane Irma—one of the strongest hurricanes ever recorded in the Atlantic—passed by Puerto Rico's north coast, substantially impairing an already weak infrastructure.

Hurricanes Irma and Maria severely damaged and destroyed buildings, roads and bridges, most of which were fully depreciated, owned by the Authority and affected the operations of the Urban Train. The Authority's roads and bridges incurred the most significant damages, which are not covered by insurance. The Authority made an evaluation of the damages and recorded an impairment loss of $2.8 million.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our bondholders, and other interest parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions or need additional financial information, contact the Puerto Rico Highways and Transportation Authority, Finance Area, P.O. Box 42007, San Juan, Puerto Rico 00940-2007.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION
JUNE 30, 2018

	2018
ASSETS	
Current assets:	
Cash and cash equivalents	$ 21,584,552
Accounts receivable, net	9,873,572
Due from Commonwealth of Puerto Rico	10,000,000
Prepaid expenses and other assets	11,203,778
Total current assets	52,661,902
Restricted assets:	
Cash and cash equivalents	229,975,067
Investments with trustee	80,139,629
Receivables:	
U.S. Federal government	19,852,645
Accrued interest and other	184,059
Total restricted assets	330,151,400
Other Non-current assets:	
Capital assets, net	9,498,896,510
Highways and bridge under concession agreements, net	201,181,186
Total other non-current assets	9,700,077,696
Total assets	10,082,890,998
DEFERRED OUTFLOWS OF RESOURCES -	
Deferred loss on advance refunding, net	83,310,311
Pension related	105,237,620
Total deferred outflows, net	188,547,931
Total assets and deferred outflow of resources	$ 10,271,438,929

Continues

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION
JUNE 30, 2018

Continued

	2018
LIABILITIES	
Current liabilities:	
Accounts payable	$ 89,640,102
Accrued and other liabilities	26,437,458
Accounts and subcontractors payable	81,239,845
Accrued interest payable on lines of credit and bonds payable	748,272,230
Current portion of accrued legal claims	10,737,484
Non revolving lines of credit	1,733,697,500
Current portion of bonds payable	167,445,000
Total current liabilities	2,857,469,619
Non-current liabilities:	
Accrued legal claims	94,110,204
Accrued vacations and sick leave	12,321,603
Voluntary termination incentive plan liability	41,552,118
Net pension liability	550,823,735
Bonds payable, net	4,258,090,097
Total non-current liabilities	4,956,897,757
Total liabilities	7,814,367,376
DEFERRED INFLOWS OF RESOURCES -	
Service concession agreement	1,114,330,301
Pension related	20,256,993
Total deferred inflows of resources	1,134,587,294
NET POSITION:	
Net investment in capital assets	2,428,585,264
Restricted for debt service	-
Restricted for construction	188,967,170
Deficit	(1,295,068,175)
Total net position	1,322,484,259
Total liabilities, deferred inflow of resources and net position	$ 10,271,438,929

The accompanying notes are an integral part of these financial statements.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	2018
OPERATING REVENUES:	
Toll and train fares	$ 115,782,781
Other operating income	60,145,420
Concession agreement	34,139,711
Total operating revenues	210,067,912
OPERATING EXPENSES:	
Salaries and related benefits	37,038,038
Post-employment benefits	1,477,299
Toll highways administration and maintenance	36,303,249
Train operating and maintenance costs	47,471,335
Integrated transportation system	14,130,841
Repairs and maintenance of roads and bridges	24,965,138
Emergency repairs post Hurricane Maria	46,049,296
Impairment loss due to Hurricane Maria	2,849,131
Utilities	8,605,241
Other	39,583,569
Total operating expenses	258,473,137
OPERATING LOSS BEFORE DEPRECIATION AND AMORTIZATION	(48,405,225)
DEPRECIATION AND AMORTIZATION	454,470,038
OPERATING LOSS	(502,875,263)
NON-OPERATING REVENUES (EXPENSES):	
Operating transfers from the Commonwealth of Puerto Rico	117,087,663
Operating grants from U.S. Federal Government	20,602,327
Interest on bonds and lines of credit	(327,441,300)
Principal and interest on bonds paid by insurance company	204,706,379
Investment income	6,365,848
Net change in fair value of investments	(80,337)
Other	(38,179)
Total non-operating revenues (expenses), net	21,202,401
LOSS BEFORE CAPITAL CONTRIBUTIONS	(481,672,862)
CAPITAL GRANTS:	
U.S. FEDERAL GOVERNMENT	92,313,496
COMMONWEALTH	159,000,000
Total capital grants	251,313,496
CHANGE IN NET POSITION	(230,359,366)
NET POSITION AT BEGINNING OF YEAR	1,552,843,625
NET POSITION AT END OF YEAR	$ 1,322,484,259

The accompanying notes are an integral part of these financial statements.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	2018
OPERATING ACTIVITIES:	
Receipts from toll and train fares	$ 112,992,746
Receipts from other sources	62,562,104
Payments to employees and related benefits	(49,244,301)
Payments to suppliers for goods and services	(213,742,163)
Net cash used in operating activities	(87,431,614)
NONCAPITAL FINANCING ACTIVITIES:	
Operating grants received	20,417,001
Operating transfers from the Commonwealth of Puerto Rico	117,087,663
Net cash provided by noncapital financing activities	137,504,664
CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital grants received	251,329,458
Acquisition and construction of capital assets, net of capitalized interest	(130,788,227)
Net cash provided by capital and related financing activities	120,541,231
INVESTING ACTIVITIES:	
Withdrawals of cash and investments with trustee	2,637,277
Deposits to cash and investments with trustee	(4,297,584)
Investment and interest income received	2,999,652
Net cash provided by investing activities	1,339,345
NET INCREASE IN CASH AND CASH EQUIVALENTS	171,953,626
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	79,605,993
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 251,559,619

Continued

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Continues

	2018
RECONCILIATION TO CASH AND CASH EQUIVALENTS PRESENTED IN THE STATEMENT OF NET POSITION:	
Cash and cash equivalents	$ 21,584,552
Cash and cash equivalents - restricted	229,975,067
Total	$ 251,559,619
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:	
Operating loss	$(502,875,263)
Adjustments to reconcile operating loss to net cash flows provided by operating activities:	
Depreciation and amortization	454,470,038
Revenue from concession agreements	(34,139,711)
Other	(38,179)
Net change in operating assets and liabilities:	
Accounts receivable	(552,046)
Prepaid expenses and other assets	(6,591,037)
Accounts payable	15,860,149
Accrued liabilities	505,673
Accrued legal claims	(2,479,410)
Accrued vacations and sick leave	(2,437,874)
Accrued voluntary incentive plan liability	(9,153,954)
Net pension liability	-
Net cash flows used in operating activities	$ (87,431,614)
SUPPLEMENTAL CASH FLOWS INFORMATION:	
Non-cash transactions:	
Improvement to roads under concession arrangements	$ 2,527,321
Custodial credit risk loss on deposits with governmental bank	$ 38,179
Change in fair value of investments	$ 80,337
Bonds principal and interest paid by insurance company	$ 204,706,379
Bonds principal and interest paid by third party (Teodoro Moscoso Bonds)	$ 12,277,010

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION

Puerto Rico Highways and Transportation Authority (the "Authority") is a public corporation and component unit of the Commonwealth of Puerto Rico (the "Commonwealth") created by Act No. 74 of June 23, 1965, as amended ("Act No. 74-1965"), to design, construct and administer toll roads, highways, and other facilities for the movement of persons, vehicles and vessels, and for the planning, promotion and feasibility of mass transportation systems. As a component unit of the Commonwealth, the Authority is included in the basic financial statements of the Commonwealth. The Authority is governed by a seven-member board of directors empowered to approve, amend, and revoke any regulations necessary to perform its duties and to control the Authority's capital and operational budget. With the enactment of PROMESA on June 30, 2016, some of these powers may also require approval by the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board"). Refer to Note 3 of the basic financial statements for additional information regarding PROMESA and the Oversight Board. In addition, as discussed in Notes 3 and 4 to the basic financial statements, on May 21, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Authority by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. The Authority currently operates as a debtor in such Title III case.

The basic financial statements presented herein relate solely to the Authority's financial position and results of operations and are not intended to present the financial position of the Commonwealth or the results of its operations or cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

The accounting policies of the Authority conform to generally accepted accounting principles in the United States of America (GAAP), as promulgated in Governmental Accounting Standard Board (GASB) pronouncements.

The Authority's operations are accounted for as a proprietary fund (enterprise fund) using the flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflow of resources associated with the Authority's operations are included on the statement of net position. Revenue is recognized in the period in which it was earned and expenses are recognized in the period in which it was incurred.

The Authority accounts for its operations and financing in a manner similar to private business enterprises. The intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Such accounts and these basic financial statements have been prepared on the basis that the Authority will continue as a going concern and as a legally separate governmental entity and component unit of the Commonwealth. See Note 4 to the basic financial statements.

Cash and Cash Equivalents

The Authority considers as cash and cash equivalents all highly liquid investments with original maturities within three months or less from the date of purchase.

Investments

The Authority reports investments on the statement of net position at fair value and investment income, including changes in the fair value of investments, are reported as non-operating revenue/(expense) in the statement of revenues, expenses and changes in net position. Fair values have been determined using quoted market values as of June 30, 2018.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectibility of accounts receivable and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

Capital Assets

Cost basis - Capital assets are recorded at historical cost or acquisition value for donated assets. The cost of property and equipment includes costs for infrastructure assets (rights of way, bridge substructures, highways and bridges), toll facilities, equipment and other related costs (including software), buildings, and furniture. Highways and bridge substructures include road subbase, grading, land clearing, embankments, and other related costs. Costs for infrastructure assets include construction costs, design and engineering fees and administrative and general expenses associated to the project.

Capitalization Policy - Infrastructure capital assets (road, bridges, highways, transportation equipment, etc.) are defined by the Authority as assets with an initial, individual cost of more than $500,000 and an estimated useful life of more than one year. Other capital assets, such as equipment, vehicles, etc. are defined by the Authority as assets with an initial individual cost of more than $100 and an estimated life of more than three years.

Costs to acquire additional capital assets, which replace existing assets or otherwise extend their useful lives, are generally capitalized.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are expensed as incurred.

Interest cost is capitalized as part of the historical cost of acquiring or constructing certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Interest earned on proceeds of tax-exempt borrowings arrangements restricted for the acquisition of qualifying assets is offset against interest cost to determine the net amount to be capitalized. Interest cost is not capitalized on costs paid with the proceeds of grants or donations restricted solely for construction.

Depreciation of Capital Assets - Depreciation is provided using the straight-line method over an estimated useful life of 40 years for new roads and highways, 50-59 years for new bridges and transportation system (including transportation equipment and facilities), 20 years for bridge improvements, 15 years for road repavement of freeways and 10 years for equipment, vehicles and non-freeways.

Impairment of Capital Assets - The Authority evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage among others.

The Authority evaluated its capital assets and determined that there was no impairment as of June 30, 2018, except for damages to certain capital assets caused by hurricanes Irma and Maria as described in Note 22 to the basic financial statements.

Service Concession Agreements

The Authority has entered into service concession agreements under which it has transferred the administration and operation of certain infrastructure assets to private organizations in exchange for concession fees. Amounts collected in advance are reported as deferred inflows of resources and are amortized into concession revenue in a systematic and rational manner over the term of the agreements. The assets are still owned by the Authority and, therefore, are reported in the Authority's basic financial statements. Improvements performed by Metropistas and Autopistas to the transferred assets are capitalized by the Authority. See Note 11 for additional information regarding the service concession agreements in effect as of June 30, 2018.

Claims and Judgments

The estimated amount of liability for claims and judgments is recorded on the accompanying statement of net position based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management's estimate of the liability for claims and judgments may change in the future. Refer to Note 19 for additional information regarding the status of the Authority's key litigation as of the date of these basic financial statements.

Vacation and Sick Leave

Employees earn annual vacation leave at the rate of 15 days per year up to a maximum permissible accumulation of 60 days. Employees accumulate sick leave at the rate of 18 days per year. Maximum permissible accumulation for sick leave is 90 days for all employees. The Authority records as a liability and as an expense the vested accumulated vacation and sick leave as benefits accrue to employees.

The cost of vacation and sick leave expected to be paid in the next twelve months is classified as current accrued liabilities while amounts expected to be paid after twelve months are classified as non-current liabilities.

Pensions

For purposes of measuring the pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Employee Retirement System (ERS) of the Commonwealth and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at estimated fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenses) until then. The Authority has two items that qualify for reporting in this category, the deferred loss on advance refunding, and deferred pension expense.

Losses resulting from current or advance refunding of debt are deferred and amortized over the shorter of the life of the new debt and the remaining life of old debt. The amount amortized is reported as a component of interest expense.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Authority has two items that qualify for reporting in this category, the deferred service concession agreements and pension investment experience.

A deferred outflow/inflow of resources related to pension results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees).

Bond Premiums (Discounts) and Bond Issuance Costs

Bond issuance costs are reported as expense during the year they are incurred.

Bonds discounts and premiums are amortized over the term of the related debt using the effective interest-rate method. Bonds payable are reported net of applicable discount and premium.

Amortization related to bond premiums (discounts) were approximately $13.4 million for the fiscal year ended June 30, 2018, and is included as a component of interest expense in the accompanying statements of revenues, expenses and changes in net position.

Net Position

Net position is classified in the following four components in the accompanying statement of net position:

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at fiscal year end, the portion of the debt or deferred inflows of resources attributable to the unspent amount are not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

R***estricted for Debt Service*** - Consists of restricted assets for payment of principal and interest related to bonds payable. This restriction is imposed by the bondholders through debt covenants.

Restricted for Construction - Consists of restricted assets for the specific purpose of financing the construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

Unrestricted - Unrestricted net position consists of net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investments in capital assets or the restricted component of net position. As of June 30, 2018, the Authority has an accumulated deficit of approximately $1,295.1 million. Refer to Note 4 for further information regarding the Authority's ability to continue as a going concern.

Revenue Recognition

The Authority distinguishes operating revenues and expenses from non-operating items. Revenues associated with tolls and train fares are recorded as operating revenues when earned, based on activity reports provided by the toll and Urban Train operators, respectively.

Expenses related to the administration and maintenance of toll highways and transportation system, repair and maintenance of roads and bridges, and administrative expenses are recorded as operating expenses. All other revenues and expenses are considered non-operating.

Non-operating revenues consist principally of operating transfers allocated to the Authority by the Commonwealth and United States federal government to finance the Authority's operations.

Capital and Operating Grants

Capital and operating grants are funds assigned by the federal and local governments, such as Federal Highways Administration (FHWA), Federal Transit Administration (FTA), and the Commonwealth to the Authority for the construction of specific projects or infrastructure repairs and maintenance. These are reported as capital and operating grants as required by GASB Statement No. 33, *Accounting and Financial Reporting for Non exchange Transactions.*

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Risk Financing

The Authority carries commercial insurance to cover casualty, theft, claims and other losses. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage for the fiscal years ended June 30, 2018, 2017 and 2016.

3. THE PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA)

Overview of PROMESA

On June 30, 2016, President Barack Obama signed PROMESA into law (as codified under 48 U.S.C. §§ 2101-2241).

In general terms, PROMESA seeks to provide the Commonwealth and its covered instrumentalities with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA, which expired on May 1, 2017; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code (11 U.S.C. §§ 101, *et seq.*). Relevant elements of PROMESA are discussed below.

Title I – Establishment of Oversight Board and Administrative Matters
Upon PROMESA's enactment, the Oversight Board was established for the Commonwealth. *See* PROMESA § 101(b).

As stated in PROMESA, "the purpose of the Oversight Board is to provide a method for a covered territory to achieve fiscal responsibility and access to the capital markets." PROMESA § 101(a). On August 31, 2016, President Obama announced the appointment the Oversight Board members. Each Oversight Board member is required to have "knowledge and expertise in finance, municipal bond markets, management, law, or the organization or operation of business or government." PROMESA § 101(f)(1). The Oversight Board was "created as an entity within the territorial government for which it was established" and is expressly not an entity of the federal government, *see* PROMESA § 101(c), but it was also established to act independently from the Commonwealth government, such that neither the Governor nor the Legislative Assembly of Puerto Rico (the Legislative Assembly) may "(i) exercise any control, supervision, oversight, or review over the Oversight Board or its activities; or (ii) enact, implement, or enforce any statute, resolution, policy, or rule that would impair or defeat the purposes of PROMESA, as determined by the Oversight Board." PROMESA § 108(a). Please refer to the language of PROMESA for a complete description of the Oversight Board and its powers.

Title II – Fiscal Plan and Budget Certification Process and Compliance
Title II sets forth the requirements for proposing and certifying fiscal plans and budgets for the Commonwealth and its instrumentalities. "Each fiscal plan serves as the cornerstone for structural reforms the Oversight Board deems necessary to ensure the territory, or instrumentality, will be on a path towards fiscal responsibility and access to capital markets." H.R. Rep. 114-602(I), 2016 WL 3124840, at *45 (2016); PROMESA § 201(b)(1).

According to the legislative history, a fiscal plan should "provide for a sustainable level of debt, improve governance, provide for capital expenditures that promise economic growth, and respect the relative priorities that different classes of bondholders have vis-à-vis one another under Puerto Rico law." H.R. Rep. 114-602(I), 2016 WL 3124840, at *112 (2016). PROMESA section 201 sets forth the specific requirements for a fiscal plan and the process for fiscal plan approval.

Only after the Oversight Board has certified a fiscal plan may the Governor submit a fiscal year Commonwealth budget and fiscal year budgets for certain Commonwealth instrumentalities (as determined by the Oversight Board) to the Legislative Assembly. *See* PROMESA § 201(c)(1). PROMESA section 202 sets forth the specific procedures and requirements for approval of each fiscal year Commonwealth budget and Commonwealth instrumentality budgets.

In furtherance of the foregoing duties, PROMESA contains a provision that grants the Oversight Board powers to monitor compliance with certified fiscal plans and budgets and undertake certain actions, including spending reductions and the submission of recommended actions to the Governor that promote budgetary compliance. Please refer to the language of PROMESA for a complete description of the Oversight Board's powers related to fiscal plan and budgetary compliance.

Title III – In-Court Restructuring Process
Title III of PROMESA establishes an in-court process for restructuring the debts of Puerto Rico and other United States territories that is modeled after the process under Chapter 9 of the U.S. Bankruptcy Code.

In order to be a debtor under Title III, the territory and/or its instrumentalities must: (i) have an Oversight Board established for it or be designated a "covered entity"; (ii) have the Oversight Board issue a restructuring certification under PROMESA section 206(b); and (iii) "desire to effect a plan to adjust its debt." PROMESA § 302. The Oversight Board has sole authority to file a voluntary petition seeking protection under Title III of PROMESA. *See* PROMESA § 304(a). As of the date hereof, the Oversight Board has commenced Title III cases for the Commonwealth, the Puerto Rico Sales Tax Financing Corporation (COFINA), ERS, the Puerto Rico Electric Power Authority (PREPA), and the Authority, as discussed below.

In a Title III case, the Oversight Board acts as the debtor's representative and is authorized to take any actions necessary to prosecute the Title III case. *See* PROMESA § 315. Immediately upon filing the Title III petition, Bankruptcy Code section 362 (which is incorporated into Title III cases under PROMESA) applies to automatically stay substantially all litigation against the debtor (the Title III Stay). After the Title III case is commenced, the Chief Justice of the United States Supreme Court must designate a district court judge to sit by designation and preside over the Title III proceedings. PROMESA also provides that the commencement of a Title III case "does not limit or impair the powers of a covered territory to control by legislation or otherwise the exercise of the political or governmental powers of the territory or territorial instrumentality." PROMESA § 303.

The core component of the Title III case is the confirmation of a plan of adjustment of the debts of the debtor. The Oversight Board has the exclusive authority to file and modify a plan of adjustment prior to confirmation. *See* PROMESA § 312. In order to be confirmed, a proposed plan of adjustment must meet the requirements set forth under PROMESA section 314.

Title IV – Temporary Stay of Litigation, Government Reporting, and Other Miscellaneous Provisions

Title IV of PROMESA contains several miscellaneous provisions, including a temporary stay of litigation related to "Liability Claims," relief from certain wage and hour laws, the establishment of a Congressional Task Force on Economic Growth in Puerto Rico (the Task Force), the requirement that the Comptroller General of the United States submit two reports to Congress regarding the public debt levels of the U.S. territories, and expansion of the federal government's small business HUBZone program in Puerto Rico.

Pursuant to PROMESA section 405, the enactment of PROMESA immediately and automatically imposed a temporary stay (the Title IV Stay) from June 30, 2016 (the date of PROMESA's enactment) through February 15, 2017 of all "Liability Claim" litigation commenced against the government of Puerto Rico and its instrumentalities after December 18, 2015. *See* PROMESA § 405(d)(1)(A). A "Liability Claim" is defined as any right to payment or equitable remedy for breach of performance related to "a bond, loan, letter of credit, other borrowing title, obligation of insurance, or other financial indebtedness for borrowed money, including rights, entitlements, or obligations whether such rights entitlements, or obligations arise from contract, statute, or any other source of law related thereto" for which the Commonwealth or one of its instrumentalities was the issuer, obligor, or guarantor and such liabilities were incurred prior to June 30, 2016. PROMESA § 405(a)-(b). The Title IV Stay was subject to a one-time 75-day extension by the Oversight Board or a one-time 60-day extension by the district court. On January 28, 2017, the Oversight Board extended the stay by 75 days to May 1, 2017, at which time the Title IV Stay expired. Any party subject to the Title IV Stay could have filed a motion in the United States District Court for the District of Puerto Rico seeking a relief from the Title IV Stay upon "cause shown." PROMESA § 405(e).

Commencement of Title III Cases

On May 1, 2017, the Title IV Stay expired, permitting the substantial litigation brought by bondholders and other creditors against the Commonwealth and its instrumentalities (including the Authority) to resume.

On May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. On May 5, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for COFINA by filing a similar petition for relief under Title III of PROMESA. On May 11, 2017, the Chief Justice of the United States designated United States District Court Judge Laura Taylor Swain as the presiding judge in the Title III cases.

On May 21, 2017, the Oversight Board, at the request of the Governor, commenced Title III cases for the Authority and ERS by filing similar petitions for relief under Title III of PROMESA. On July 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for PREPA by filing a similar petition for relief under Title III of PROMESA. All of the foregoing Title III cases have been consolidated for procedural purposes only and are being jointly administered under Case No. 17-3283-LTS in the United States District Court for the District of Puerto Rico. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees and an Official Committee of Unsecured Creditors in the Commonwealth's Title III case.

The Title III cases were commenced in part due to the May 1, 2017 expiration of the Title IV Stay. Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to the Title III cases pursuant to PROMESA section 301(a). Accordingly, upon the filing of the Title III cases, the Title III Stay immediately went into effect to stay creditor litigation.

On August 7, 2017, a group of General Obligation bondholders led by Aurelius Investment, LLC, Aurelius Opportunities Fund, LLC, and Lex Claims, LLC (collectively, Aurelius) filed a motion to dismiss the Title III petitions. In the motion, Aurelius argued that the appointment of the Oversight Board members violated the "Appointments Clause" of the United States Constitution, which requires that "principal officers" of the United States be appointed by the President and confirmed by the Senate. The Title III Court denied Aurelius' motion to dismiss, and Aurelius appealed to the United States Court of Appeals for the First Circuit, joined by certain other parties. On February 15, 2019, the First Circuit reversed the Title III Court, holding that the Oversight Board members' appointment process violated the Appointments Clause. The First Circuit stayed its ruling for 90 days to allow the President and Senate to appoint the Oversight Board in accordance with the Constitution. It also expressly validated all of the Oversight Board's past actions, including any actions taken by the Oversight Board during the 90-day stay period. The Oversight Board has announced its intention to appeal the First Circuit's decision to the Supreme Court. Although the First Circuit stayed its ruling for 90 days, the continued prosecution of the Title III cases may be uncertain if the Oversight Board is not properly re-appointed during the 90-day stay period, unless such stay is extended.

4. GOING CONCERN

The discussion in the following paragraphs regarding the Authority's financial and liquidity risks provides the necessary background and support for management's evaluation as to whether there is substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the date of these basic financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter.

GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption may relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. The following indicators are factors considered in this evaluation: (i) negative trends in operating losses and negative cash flows; (ii) possible financial difficulties such as nonpayment or default of debt and/or restructuring or noncompliance with capital or reserve requirements; and (iii) internal or external matters impacting the governmental entity's ability to meet its obligations as they become due. The Authority faces significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due.

The risks and uncertainties facing the Authority together with other factors further described below, have led management to conclude that there is substantial doubt as to the ability of the Authority to continue as a going concern in accordance with GASB Statement No. 56.

The accompanying basic financial statements have been prepared assuming that the Authority will continue as a going concern and therefore assumes the liquidation of assets and liabilities in the normal course of the Authority's operations and does not include adjustments that might be required if the Authority is unable to continue as a going concern.

Overview of Financial Position

The Authority has experienced significant recurring losses from operations and faces many business challenges that have been exacerbated by the Commonwealth's economic recession. Its principal challenges, some of which are interrelated, are: (i) reducing operating costs; (ii) maximizing revenues; and (iii) improving liquidity.

During the fiscal year ended June 30, 2018, the Authority incurred a loss before capital grants and transfers of approximately $482 million. As of June 30, 2018, the Authority's current liabilities exceeded its current assets by approximately $2,804.8 million, and the Authority had an accumulated deficit of approximately $1,295 million.

The Authority borrowed more than $2 billion from the GDB in previous fiscal years to finance infrastructure projects and pay operational expenses. These borrowings, in the form of lines of credit, had no source of repayment. The total aggregate outstanding balance of these lines of credit was $1.7 billion as of June 30, 2018. These lines of credit expired in January 2016 and are currently in default.

As discussed below, the Authority does not currently have sufficient funds available to fully repay its various obligations as they come due or that are currently in default, and is currently in a debt restructuring proceeding under Title III of PROMESA. Additionally, significant support and funding for obligations of the Authority that have previously been provided by the Commonwealth or GDB are not likely to continue. The Commonwealth is experiencing financial difficulties and may be unable to continue to extend, refinance or otherwise provide the necessary liquidity to the Authority as and when needed. As such, current defaults may not be cured and future defaults on the Authority's obligations may not be avoided.

The Commonwealth had previously conditionally allocated to the Authority certain taxes and other revenues. The Commonwealth is in the midst of a profound fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debts and pension obligations. Further stressing the Commonwealth's liquidity is the vulnerability of revenue streams during times of major economic downturns and large health care, pensions and debt service costs. On November 30, 2015, the Governor issued Executive Order 2015-046, which directed the Treasury Department to retain, among other things, certain gasoline, oil, diesel, and petroleum taxes that the Commonwealth had previously conditionally allocated to the Authority (commonly referred to as the "clawback"). These revenues were retained by the Commonwealth for the payment of essential government services.

On April 6, 2016, the Commonwealth enacted Act No. 21 of 2016, known as the Puerto Rico Emergency Moratorium and Rehabilitation Act (as amended, the Moratorium Act). Pursuant to the Moratorium Act, the Governor issued a series of executive orders declaring an emergency period, a moratorium and various other measures with respect to certain obligations of the Commonwealth and several of its instrumentalities, including the Authority.

Pursuant to these executive orders, and subsequent to the enactment of PROMESA, certain developments in connection with actions of the Oversight Board, including but not limited to, the commencement of the Title III cases of the Authority and the Commonwealth, certain Commonwealth entities have either: (i) not made debt service payments, (ii) made debt service payments with funds on deposit with the trustees of their bonds, and/or (iii) not received or transferred certain revenues. Such executive orders also placed significant restrictions on the disbursement of funds deposited at GDB and suspended the disbursement of loans by GDB. These executive orders restricted the Authority's ability to withdraw any funds held on deposit at GDB and to receive any disbursements on loans granted by GDB. These executive orders also extended the "clawback" of available resources that were previously conditionally allocated to the Authority by suspending the obligation of the Commonwealth to transfer those revenues to the Authority.

On January 29, 2017, the Governor signed into law Act No. 5 of 2017, known as the Puerto Rico Fiscal Responsibility and Financial Emergency Act (as amended, Act No. 5), which repealed certain provisions of the Moratorium Act and authorized additional emergency measures. Pursuant to Act No. 5, however, the executive orders issued under the Moratorium Act would continue in effect until amended, rescinded or superseded. The emergency period under Act No. 5 expired on December 31, 2018. Some additional powers provided to the Governor through Act No. 5 include the authority to: (i) exercise receivership powers to rectify the financial emergency, (ii) exercise general supervisory control over the functions and activities of all government entities within the Executive Branch, and (iii) issue executive orders to implement and enforce compliance with Act No. 5.

The Moratorium Act, the related executive orders, and subsequent to the enactment of PROMESA certain developments in connection with actions of the Oversight Board, including, but not limited to, the commencement of the Title III cases of the Authority and the Commonwealth, have had a significant negative effect on the Authority's liquidity. During the fiscal year ended June 30, 2018, the Authority did not receive taxes amounting to approximately $299.3 million. There is no indication that the conditional allocation of gasoline, oil, diesel, and petroleum taxes to the Authority will resume.

Defaults

On July 3, 2017, the Authority defaulted on the debt service principal amounting to $122.9. In addition, the Authority defaulted interest debt service payments totaling $221.5 for the fiscal year ended June 30, 2018. Subsequent to June 30, 2018, as explained in Note 23 to the basic financial statements, the Authority has defaulted on all debt service principal and interest of all bond series. Without the taxes and other revenues conditionally allocated by the Commonwealth as explained above, the Authority has been unable to make the scheduled payments on its outstanding bonds and fund its reserve accounts accordingly.

GDB No Longer Provides Financial Support to the Authority

Historically, the Authority has been highly reliant on GDB for liquidity and financial management support in the past.

GDB, has traditionally served as interim lender to the Commonwealth, its component units, and municipalities in anticipation of the issuance of long-term bonds and notes by such entities in the municipal bond market. GDB has also provided financing to the Commonwealth and its component units to finance their respective operational deficits. As a result, GDB liquidity and financial conditions depend to a large extent on the repayment of loans made to the Commonwealth and its component units. GDB faces significant risks and uncertainties and currently does not have (and is not expected to have) sufficient liquid financial resources to meet its obligations in full.

On March 23, 2018, GDB ceased its operations. On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification). Under the Qualifying Modification, holders of certain bond and deposit claims exchanged their claims for bonds issued by a newly created public instrumentality, the GDB Debt Recovery Authority, and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets and its unencumbered cash. As a result of the Qualifying Modification, loans in the total aggregate amount of approximately $1.9 billion owed by the Authority to GDB were transferred to the GDB Debt Recovery Authority.

In addition, pursuant to Act No. 109 of 2017, also known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the GDB Restructuring Act), the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Authority (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. As a result of the foregoing adjustment, all of the Authority's deposits at GDB were extinguished as a result of the Qualifying Modification. Due to the closing of the Qualifying Modification and the wind-down of GDB, the Authority will also no longer be able to rely on GDB for future liquidity.

Management's Remediation Plan and Commencement of Title III Case

On March 13, 2017, the Authority presented to the Oversight Board its fiscal plan for the ensuing ten years. Faced with the challenges discussed above, the Authority developed a fiscal plan focusing on: (i) infrastructure agenda; (ii) memorandum of understating with its federal grantor agencies geared at revamping the Authority's project and program delivery capabilities; (iii) fiscal initiatives and organizational transformation; and (iv) debt sustainability. On April 28, 2017, the Oversight Board approved the fiscal plan for the Authority and recommended certain amendments.

On May 21, 2017 (the Petition Date), the Oversight Board, at the request of the Governor, filed a petition for relief for the Authority under Title III of PROMESA. As of the Petition Date, the total aggregate debt of the Authority was estimated to be approximately $4.291 billion, excluding approximately $1.733 billion in GDB lines of credit.

After the passage of Hurricanes Irma and Maria in September 2017, the Oversight Board requested the Authority to submit a revised fiscal plan for the Authority. On April 20, 2018, the Oversight Board certified its own revised fiscal plan for the Authority, which was subsequently revised and recertified on June 29, 2018. On August 2, 2018, the Oversight Board requested additional revisions to the Authority's certified fiscal plan to address new information, including full fiscal year 2018 revenue actual, revised federal disaster spending estimates, and an adjustment to demographic projections.

There is no certainty that the certified fiscal plan (as revised and amended) will be fully implemented, or if implemented will ultimately provide the intended results. All of these fiscal plans and measures, and the Authority's ability to reduce its deficits, achieve a balanced budget, and pay its obligations in the normal course of business depend on a number of factors and risks, some of which are not wholly within its control.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2018, consisted of:

		2018
Cash on hand and in banks	$	14,085,488
Certificates of deposit		7,499,064
Total	$	21,584,552

Cash and cash equivalents include certificates of deposit with local commercial banks. Certificates of deposit with the Economic Development Bank (EDB) in the total aggregate amount of $5.8 million at June 30, 2018, were fully reserved in both fiscal years 2018 and 2017 as further described in Note 9 to the basic financial statements.

In addition, as of June 30, 2018, the Authority held deposits with the GDB in the total aggregate amount of approximately $54.4 million which were fully reserved in both fiscal years 2018 and 2017 as further described in Note 9 to the basic financial statements.

6. ACCOUNTS RECEIVABLE, NET

Accounts receivable at June 30, 2018, consisted of:

		2018
Government, agencies and others	$	55,528,626
Rent receivables		5,269,237
Repairs to highways recoverable from users		1,554,883
Electronic Toll System Operator		9,432,615
Other		5,017,988
Total		76,803,349
Less allowance for doubtful accounts		(66,929,777)
Accounts receivable, net	$	9,873,572

Receivables from governmental entities consist of charges made to various government agencies, public corporations and municipalities of the Commonwealth in previous fiscal years. Most of these amounts are significantly overdue and are included in the allowance for doubtful accounts as of June 30, 2018.

7. RESTRICTED CASH, CASH EQUIVALENTS, AND INVESTMENTS WITH TRUSTEE

Restricted cash, cash equivalents and investments with trustee at June 30, 2018, consisted of:

	2018
Cash on hand and in Banks	$ 229,975,067
Investments with trustee:	
Mutual funds	$ 49,264,201
Guaranteed investment contracts	7,903,918
US Government securities	9,806,573
Corporate bonds	$ 13,164,937
Investments with trustee	$ 80,139,629

At June 30, 2018, the above amounts were restricted to comply with long-term principal and interest debt service requirements or for construction of transportation facilities. These restricted assets are held by Bank of New York (the Fiscal Agent) under Resolutions 1968-18, 1998-06 and 2004-18 (collectively, the Bond Resolutions) in the following funds and accounts:

1968 Reserve Account - Reserve for payment of principal and interest on Highway Revenue Bonds in the event moneys in Bond Service Account or Redemption Account under Resolution 1968-18 are insufficient for such purpose.

1968 Bond Service Account and Redemption Account (Sinking Fund) under Resolution 1968-18) - Current year requirements for principal and interest on Highway Revenue Bonds.

1998 Senior Reserve Account - Reserve for payment of principal and interest on Senior Transportation Revenue Bonds in the event moneys in Senior Bond Service Account or Senior Bond Redemption Account under Resolution 1998-06 are insufficient for such purpose.

***1998 Senior Bond Service Account and Senior Bond Redemption Account* (Senior Bond Sinking Fund under Resolution 1998-06)** - Current year requirements for principal and interest on Senior Transportation Revenue Bonds.

1998 Subordinated Reserve Fund - Reserve for payment of principal of and interest on Subordinated Transportation Revenue Bonds in the event moneys in Subordinated Bond Service Account or Subordinated Bond Redemption Account under Resolution 1998-06 are insufficient for such purpose.

1998 Subordinated Bond Service Account and Subordinated Bond Redemption Account (Subordinated Bond Sinking Fund under Resolution 1998-06) - Current year requirements for principal of and interest on Subordinated Transportation Revenue Bonds.

At June 30, 2018, amounts held by Trustee in the following accounts amounted to:

	2018
1968 Reserve Account	$ 47,149,616
1968 Sinking Fund	13
1998 Senior Reserve Account	28,733,151
1998 Senior Sinking Fund	1,029,089
1998 Subordinated Reserve Fund	2,410,136
Others	817,624
Total	$ 80,139,629

As explained in Note 4 to the financial statements, the Governor issued executive orders 2016-18 (EO 18) and 2016-031 (EO 31) pursuant to the Moratorium Act. These orders authorized the Authority to apply toll revenues to fund essential services and suspended transfers to the fiscal agent under Resolution 1968-18 dated June 13, 1968, as amended, and Resolution 1998-06 dated February 26, 1998, as amended. In addition, EO 31 suspended the transfer of certain conditionally allocated revenues to the GDB to the extent that those revenues are needed by the Authority to finance its operational expenses and/or pay for essential services. Moreover, subsequent to the enactment of PROMESA, certain developments in connection with actions of the Oversight Board, including but not limited to the initiation of the Title III cases of the Authority and the Commonwealth also affect the disposition of such funds. Therefore, the balance in reserve accounts at June 30, 2018 was below the minimum debt service requirements required by Bond Resolution 1968-18 and 1998-06.

8. FAIR VALUE MEASUREMENTS

In 2016, the Authority adopted GASB Statement No. 72, *Fair Value Measurement and Application*. The Authority categorizes its fair value measurements within the fair value hierarchy established by GAAP. GASB Statement No. 72 sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has ability to access.

Level 2 - Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in active markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The determination of what constitutes observable requires judgment by the Authority's management. The Authority's management considers observable data to be market data that is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to Authority's management perceived risk of that investment.

The Authority has the following recurring fair value measurements as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Debt Securities:				
U.S government obligations	$ -	$ 9,806,573	$ -	$ 9,806,573
Commercial paper	13,164,937	-	-	13,164,937
	$ 13,164,937	$ 9,806,573	$ -	22,971,510
Investments valued at net asset value of amortized cost:				
Mutual funds				49,264,201
Guaranteed investment contract				7,903,918
Total				$ 80,139,629

When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy.

For investments classified within Level 2 of the fair value hierarchy, the Authority's custodians generally use a multidimensional relational model. Inputs to their pricing models are based on observable market inputs in active markets. The inputs to the pricing models are typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others.

The Authority does not have any investments that are measured using Level 3 inputs.

9. DEPOSITS AND INVESTMENTS

The Authority is restricted by law to deposit funds only in institutions approved by the Treasury Department of Puerto Rico, and such deposits are required to be kept in separate accounts in the name of the Authority. The Bond Resolutions require that moneys in the debt service funds be held by the Fiscal Agent in trust and applied as provided in the Bond Resolutions.

Pursuant to the Investment Guidelines under the Bond Resolutions, the Authority may invest in obligations of the Commonwealth, obligations of the United States federal government, certificates of deposit, commercial paper, repurchase agreements, banker's acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. Monies in the sinking funds can only be invested in direct obligations of the United States federal government, or obligations unconditionally guaranteed by the United States federal government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

Custodial Credit Risk - Deposits

For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned. Under Puerto Rico law, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. Deposits maintained in GDB and EDB are exempt from collateral requirement established by the Commonwealth and thus represents custodial credit risk because in the event of GDB's or EDB's failure, the Authority may not be able to recover the deposits.

All monies deposited with the Trustee or any other depository institution hereunder in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency are continuously secured by lodging with a bank or trust company approved by the Authority and by the Trustee as custodian, or, if then permitted by law, by setting aside under control of the trust department of the bank holding such deposit, as collateral security, Government Obligations or other marketable securities.

At June 30, 2018, the Authority's deposits maintained in governmental and commercial banks are as follows:

	2018			
	Unrestricted		Restricted	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Commercial banks	$ 21,584,552	$ 23,035,794	$ 229,975,067	$ 229,975,067
Governmental banks	-	12,724,528	-	47,481,615
	$ 21,584,552	$ 35,760,322	$ 229,975,067	$ 277,456,682

Custodial Credit Risk Loss on Deposits with Government Development Bank (GDB) and Economic Development Bank (EDB)

As described in Note 4 above, on November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA. Under the Qualifying Modification and the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Authority (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. As a result of this foregoing adjustment, all of the Authority's deposits at GDB were extinguished as a result of the Qualifying Modification.

In addition, the Authority has certificates of deposit with EDB in the total aggregate amount of approximately $5.8 million as of June 30, 2018. Management believes that EDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due. As a result, all certificates of deposit held with EDB were fully reserved as of June 30, 2018.

A summary of deposits in GDB and EDB at June 30, 2018 were as follows:

	2018
Government Development Bank	$ 54,387,357
Economic Development Bank	5,818,786
Total	60,206,143
Less: custodial credit risk loss	(60,206,143)
Net deposits in governmental banks	$ -

Total aggregate amount of custodial credit risk loss on the above deposits recorded during the fiscal year ended June 30, 2018, was approximately $44,490.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that in the event of the failure of the counterpart, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority invests in prime investments with a minimum quality rating of Aa1 (Moody's) or AA+ (S&P). In addition, investments in bond sinking funds are limited to direct obligations of the United States federal government, or obligations unconditionally guaranteed by the United States federal government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

The Authority maintains funds and accounts under the Bonds Resolutions that are held by a trustee. As of June 30, 2018, the total aggregate amount of investments held by the trustee was approximately $80.1 million. These accounts invest on different types of short-term and long-term securities, including a Guaranteed Investment Contract (GIC). Under the GIC, the financial institution guarantees the Authority a fixed rate of return. As established in the GIC, the financial institution has invested such funds in predetermined securities such as cash, U.S. Treasury and U.S. Government Agency securities. These securities are pledged and serve as collateral for the account balance. The fair value of the GICs is determined based on the fair value of the underlying investments based on quoted market prices and then adjusted to contract value. As of June 30, 2018, the contract value, which represents amounts deposited plus interest credited less withdrawals, approximated its fair value.

Providers of guaranteed investment contracts as of June 30, 2018, are as follows:

	2018
FSA Capital Management Services	$ 7,903,918

Interest-Rate Risk

Interest-rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes to market interest rate.

Maturities of investments with the trustee at June 30, 2018, were as follows:

	2018				
	Less than One Year	One to Five Years	Five to Ten Years	Ten to Twenty Years	Total
Mutual funds	49,264,201	-	-	-	49,264,201
Guaranteed investment contracts	-	-	-	7,903,918	7,903,918
Commercial paper	13,164,937	-	-	-	13,164,937
US Government and agencies securities	3,171,893	6,634,680	-	-	9,806,573
Total	$ 65,601,031	$ 6,634,680	$ -	$ 7,903,918	$ 80,139,629

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

10. CAPITAL ASSETS, NET

The following schedule summarizes the capital assets, net, held by the Authority as of June 30, 2018:

	Balance at June 30, 2017	Increases	Decreases	Balance at June 30, 2018
Assets not being depreciated				
Land	$ 1,915,785,580	$ -	$ (519,300)	$ 1,915,266,280
Construction in progress	486,671,562	99,767,567	(52,317,697)	534,121,432
Total assets not being depreciated	2,402,457,142	99,767,567	(52,836,997)	2,449,387,712
Assets being depreciated				
Transportation system	2,419,375,826	-	-	2,419,375,826
Roads	12,925,510,114	62,287,751	(942,243)	12,986,855,622
Bridges	3,531,917,107	13,857,562	(1,906,892)	3,543,867,777
Buildings	22,500,000	-	-	22,500,000
Equipment, vehicles and other	133,822,936	540,048	(402,837)	133,960,147
Total	19,033,125,983	76,685,361	(3,251,972)	19,106,559,372
Less accumulated depreciation	(11,603,800,441)	(453,635,839)	385,706	(12,057,050,574)
Total assets being depreciated	7,429,325,542	(376,950,478)	(2,866,266)	7,049,508,798
Total capital assets, net	$ 9,831,782,684	$ (277,182,911)	$ (55,703,263)	$ 9,498,896,510

The total aggregate amount of interest expense incurred during the fiscal year ended June 30, 2018, was approximately $327.4 million, of which approximately $4.5 million was capitalized as part of construction in progress in the accompanying statement of net position.

11. HIGHWAYS AND BRIDGE UNDER SERVICE CONCESSION AGREEMENTS

Highways and bridge under Service Concession Agreements as of June 30, 2018 is summarized as follows:

	Balance at June 30, 2017	Increases	Decreases	Balance at June 30, 2018
Toll roads (PR 5 and PR 22)	$ 310,391,908	$ -	$ -	$ 310,391,908
Toll roads concession improvements	48,645,995	2,527,320	-	51,173,315
Bridge	109,500,000	-	-	109,500,000
Total	468,537,903	2,527,320	-	471,065,223
Less accumulated depreciation	(269,049,838)	(834,199)	-	(269,884,037)
Total	$ 199,488,065	$ 1,693,121	$ -	$ 201,181,186

Toll Road Service Concession Agreement (PR-5 and PR-22)

On September 22, 2011, the Authority entered into the Toll Road Service Concession Agreement with Autopistas Metropolitanas de Puerto Rico, LLC (Metropistas), in which the Authority granted to Metropistas the right to operate PR-5 and PR-22 highways (the Toll Roads) for a period of 40 years. During the 40-year term, Metropistas will have the right to charge and collect the tolls imposed on the Toll Roads.

The Authority received an upfront concession fee payment of $1,136 million, of which approximately $873.1 million was used to redeem or defeased bonds issued and outstanding associated with the Toll Roads.

The Authority recorded a deferred inflow of resources from the Toll Road Service Concession Agreement of $1,136 million that is being amortized and recognized as revenue over the 40 year term of the agreement. The Toll Roads (capital assets) will continue to be reported in the statement of net position as a separate item as highways and bridge under service concession agreements. As of June 30, 2018, the total aggregate amount of the Toll Roads capital assets was approximately $141.9 million, net of accumulated depreciation. Toll Roads depreciation was suspended on September 22, 2011 until the expiration of the Toll Road Service Concession Agreement because the agreement requires Metropistas to return the Toll Roads to the Authority in their original or an enhanced condition. However, improvements by Metropistas to the Toll Roads are depreciated over the estimated useful life.

On April 19, 2016, the Authority entered into an amendment of the Toll Road Service Concession Agreement to extend the original term for 10 additional years and to create five bidirectional tolling points on the Toll Roads. The Authority received an upfront concession fee payment of $100 million, which was used to pay $18.2 million of the Authority's current debts and $79.8 million was transferred to the Commonwealth in fiscal year 2016. Also in June 2017, the Authority received an additional $15 million payment concurrently with the commencement of the bidirectional system described above.

In addition, the Authority capitalized and considered as deferred inflows of resources $2.5 million during the fiscal year ended June 30, 2018, for improvements made by Metropistas to the Toll Roads.

Bridge Service Concession Agreement

On December 20, 1992, the Authority and Autopistas de Puerto Rico LLC (Autopistas) entered into the Bridge Service Concession Agreement, for the design, construction, operation and maintenance of the Bridge, a toll bridge, which crosses the San José Lagoon between the municipalities of San Juan and Carolina known as Teodoro Moscoso Bridge. Autopistas designed and constructed the Bridge and commenced operating the Bridge on February 23, 1994 (valuation date). The initial term of this agreement was 35 years, expiring on April 3, 2027. On September 9, 2009, the agreement was amended to extend its term to 50 years (2044).

As of June 30, 2013, the Authority recognized the Teodoro Moscoso Bridge at fair value, equivalent to what the Authority might have paid to have the Teodoro Moscoso Bridge constructed (replacement cost) at valuation date. The replacement cost was determined to be $109.5 million depreciated over an estimated useful life of 59 years. The asset balance related to the Teodoro Moscoso Bridge was adjusted to recognize the first 17 years of operations and the remaining amortization will be amortized over 42 years. The Teodoro Moscoso Bridge is being depreciated because, in the opinion of management, the Bridge Service Concession Agreement does not require Autopistas to return the Teodoro Moscoso Bridge in its original condition. As of June 30, 2018, the net book value of the Teodoro Moscoso bridge was $59.3 million.

The Bridge Service Concession Agreement, as amended, requires Autopistas to pay 5% of the annual toll revenues to the Authority until February 22, 2027, then 61.5% of such revenues from February 23, 2027 through the end of the agreement. During the fiscal year ended June 30, 2018, Autopistas paid the Authority approximately $1.8 million related to the toll revenues.

On October 22, 2003, the Authority issued term and capital appreciation bonds in the total aggregate amount of approximately $153.2 million (the 2003 Bonds). The proceeds of these bonds were used to refund in advance the bonds previously issued in 1992 to finance the construction of the Teodoro Moscoso Bridge.

The activity of the bonds during the fiscal year ended June 30, 2018, as recorded in the accompanying financial statements is as follows:

	Balance at June 30, 2016	Issuance/ Accretions	Payments/ Amortization	Balance at June 30, 2018
Term bonds	$ 85,010,000	$ -	$ (7,840,000)	$ 77,170,000
Capital appreciation bonds	35,191,991	2,147,509	-	37,339,500
Total	$ 120,201,991	$ 2,147,509	$ (7,840,000)	$114,509,500

Under the terms of the Bridge Service Concession Agreement, Autopistas is responsible for the debt service payment on the bonds unless the agreement is terminated as specified in the Bridge Service Concession Agreement. Because the bonds are being paid by Autopistas, the Authority will record as concession revenue the amount of principal paid by Autopistas in each year until the bonds are fully paid. Therefore, the Authority recorded concession revenue in the total aggregate amount of 7.8 million during the fiscal year ended June 30, 2018, which represents the principal payments on bonds made by Autopistas.

Under certain circumstances, including if minimum toll revenues are not achieved, the Bridge Service Concession Agreement may be terminated, and the Authority is then obligated to assume all of Autopistas' obligations to pay the principal of, and interest on, the bonds outstanding, which pursuant to the Loan Agreement will be paid from the net revenues of the use and operation of the Teodoro Moscoso Bridge. Although Autopistas currently has the ability to terminate the Bridge Service Concession Agreement and have the Authority assume its obligations, the Authority has not received such notice and does not currently expect the Bridge Service Concession Agreement to terminate.

The deferred inflows of resources in the total aggregate amount of approximately $1,114 million as of June 30, 2018 were related to the Toll Roads Concession Agreement.

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12. LONG-TERM LIABILITIES

Long-term debt activity for the fiscal year ended June 30, 2018, was as follows:

	Balance at June 30, 2017	Issuance/ Accretions	Payments/ Amortization	Balance at June 30, 2018	Due within One Year
Serial bonds					
Resolution 1968-18	$ 396,390,000	$ -	$ (29,985,000)	$ 366,405,000	$ 12,275,000
Resolution 1998-06	1,186,895,000	-	(33,625,000)	1,153,270,000	98,065,000
Total	1,583,285,000	-	(63,610,000)	1,519,675,000	110,340,000
Term bonds					
Resolution 1968-18	393,095,000	-	-	393,095,000	19,775,000
Resolution 1998-06	1,838,935,000	-	(3,265,000)	1,835,670,000	3,430,000
Teodoro Moscoso	85,010,000	-	(7,840,000)	77,170,000	8,650,000
Total	2,317,040,000	-	(11,105,000)	2,305,935,000	31,855,000
Variable rate bonds					
Resolution 1998-06	200,000,000	-	-	200,000,000	-
CPI based interest-rate bonds					
Resolution 1998-06	57,965,000	-	-	57,965,000	-
LIBOR based interest-rate bonds					
Resolution 1998-06	700,000	-	-	700,000	-
Capital appreciation bonds					
Resolution 1968-18	26,775,825	1,182,795	-	27,958,620	-
Resolution 1998-06	76,642,625	2,361,367	(25,250,000)	53,753,992	25,250,000
Teodoro Moscoso	35,191,991	2,147,509	-	37,339,500	-
Total	138,610,441	5,691,671	(25,250,000)	119,052,112	25,250,000
Total before bond premium	4,297,600,441	5,691,671	(99,965,000)	4,203,327,112	167,445,000
Add net bond premium	235,602,485	-	(13,394,500)	222,207,985	-
Total bonds outstanding	$4,533,202,926	$ 5,691,671	$ (113,359,500)	$4,425,535,097	$ 167,445,000
Other long-term liabilities					
Accrued legal claims	$ 104,623,405	$ 8,473,574	$ (8,249,291)	$ 104,847,688	$ 10,737,484
Accrued vacations and sick leave	20,094,975	3,219,289	(5,657,163)	17,657,101	5,335,498
Voluntary termination incentive plan liability	62,466,885	2,644,820	(11,798,774)	53,312,931	11,760,813
Net pension liability	550,823,735	-	-	550,823,735	-
Non-revolving lines of credit	1,733,697,500	-	-	1,733,697,500	1,733,697,500
Total other liabilities	$2,471,706,500	$ 14,337,683	$ (25,705,228)	$2,460,338,955	$1,761,531,295

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13. BONDS PAYABLE

The Bond Resolutions authorize the issuance of revenue bonds to obtain funds to pay the construction and related costs of transportation facilities. Bonds outstanding under the Bond Resolutions at June 30, 2018, consisted of:

	2018
RESOLUTION 1968-18	
Serial bonds, maturing through 2034 with interest ranging from 3.30% to 6.50%	$ 366,405,000
Term bonds, maturing through 2039 with interest ranging from 4.00% to 6.00%	393,095,000
Capital appreciation bonds, maturing through 2026 with interest ranging from 4.36% to 4.58%	27,958,620
Total resolution 68-18	787,458,620
RESOLUTION 1998-06	
Serial bonds, maturing through 2037 with interest ranging from 2.25% to 5.75%	1,153,270,000
Term bonds, maturing through 2046 with interest ranging from 2.25% to 5.75%	1,835,670,000
Variable rate bonds	200,000,000
Capital appreciation bonds, maturing through 2026 with interest ranging from 4.47% to 5.08%	53,753,992
LIBOR based interest rate bonds maturing through 2045	700,000
Consumer Price Index based interest rate bonds maturing through 2028	57,965,000
Total resolution 1998-06	3,301,358,992
TEODORO MOSCOSO BONDS	
Term bonds, maturing through 2027 with interest ranging from 5.55% to 5.85%	77,170,000
Capital appreciation bonds, maturing through 2026 with interest ranging from 5.90% to 6.15%	37,339,500
Total Teodoro Moscoso bonds	114,509,500
Total bonds outstanding	4,203,327,112
Add: Net unamortized premium	222,207,985
Net bonds payable	4,425,535,097
Less: Current portion	167,445,000
Long-term portion	$ 4,258,090,097

The bonds are secured by a pledge, to the extent they are actually received from the Commonwealth, of the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes, a maximum of $11 million monthly (but not more than $120 million annually) derived from excise taxes over crude oil and its derivatives, $15 per vehicle per year from motor vehicle license fees, the proceeds of any other taxes, fees or charges which the Commonwealth may conditionally allocate to the Authority in the future and which the Authority may pledge, proceeds of any tolls or other charges which the Authority may impose for the use of any of its traffic facilities and certain investment earnings.

The Authority's bonds payable are subject to arbitrage regulations issued by the Internal Revenue Service of the United States of America, which require the payment of a rebate to the United States federal government of excess investments earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax exempt debt issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2018.

The proceeds of the gasoline tax, the gas oil and diesel oil tax, the crude oil tax and the motor vehicle license fees conditionally allocated to the Authority are taxes and revenues available under the Commonwealth's Constitution for the payment of principal and interest of bonds. Accordingly, if needed, they may be withheld by the Commonwealth. On November 30, 2015, the Governor issued Executive Order 2015-046, which directed the Treasury Department to retain certain gasoline, oil, diesel, and petroleum taxes that had previously been conditionally allocated to the Authority. This authorization to retain revenues conditionally allocated to the Authority was extended under the Moratorium Law, Act No. 5, and their related executive orders, as further discussed in Note 4 to the basic financial statements. Allocation of such moneys is also affected by the enactment of PROMESA and actions of the Oversight Board, including but not limited to the initiation of the Title III cases of the Authority and the Commonwealth. These revenues are to be used for other essential services within the Commonwealth. During the fiscal year ended June 30, 2018, the Commonwealth retained taxes in the total aggregate amount of approximately $299 million that would have otherwise been transferred to the Authority as further described in Note 4.

The Bond Resolutions further provide that receipts of pledged revenues must be deposited in certain accounts with the Fiscal Agent for the payment of interest and principal of the bonds outstanding.

Nothing in the Bond Resolutions is to be construed as preventing the Authority from financing any facilities authorized by Act No. 74-1965 that created the Authority through the issuance of bonds or other obligations, which are not secured under the provisions of the Bond Resolutions.

The variable rate bonds bear interest at an annual rate of interest (not to exceed the maximum legal rate) as determined by the remarking agent on and as of the rate determination date. This rate will be, in the judgment of the remarking agent under existing current market conditions, the rate that would result in the sale of the outstanding variable interest bonds at a price equal to the purchase price as defined in the bond offering. The effective rate of these bonds at was 12% as of June 30, 2018.

The Series N LIBOR Bonds bear interest from their date of delivery at a per annum rate for each period equal to (a) 67% of the Three-Month LIBOR Rate for such period plus (b) a per annum spread equal to 0.53%. In each case the LIBOR based interest rate cannot exceed the maximum rate permitted under Puerto Rico law (currently 12%). The effective rate on these bonds was 1.64% as of June 30, 2018.

Interest on the Consumer Price Index (CPI) Bonds will be payable on the first business day of each month commencing on July 2, 2007. The CPI Rate, which will be reset monthly, is an interest rate based on changes in the CPI and cannot exceed the maximum rate permitted under the Puerto Rico law (currently 12%). The effective rate on these bonds was 3.17% as of June 30, 2018.

Debt Maturities

The outstanding bonds as of June 30, 2018, require future payments of principal and interest as follows:

Fiscal years ended June 30,	Principal	Interest	Total
2018	$ 167,445,000	$ 319,007,104	$ 486,452,104
2019	141,533,050	199,923,685	341,456,735
2020	159,559,719	193,974,292	353,534,011
2021	156,236,459	187,678,948	343,915,407
2022	165,292,782	180,742,160	346,034,942
2023-2027	863,125,102	786,895,473	1,650,020,575
2028-2032	918,070,000	586,452,306	1,504,522,306
2033-2037	1,076,360,000	336,825,644	1,413,185,644
2038-2042	503,815,000	84,634,488	588,449,488
2043-2046	51,890,000	8,469,625	60,359,625
Total	$ 4,203,327,112	$ 2,884,603,725	$ 7,087,930,837

For variable interest-rate bonds included above, the debt service requirements were computed assuming current interest rates remain the same for their remaining term. As rates vary, variable-rate bond interest payments will vary.

The above schedule has been presented in accordance with original terms of the bonds payable and do not reflect the effects, if any, that may result from the Title III proceedings. The bonds payable are subject to compromise. Accordingly, the effects of the Title III proceedings may affect the carrying amounts, interest rates and the repayment terms.

Debt Refunding

The outstanding balances as of June 30, 2018, of the bonds defeased by the Authority are as follows:

	2018
Series AA	$ 123,930,000
Series BB	22,180,000
Series CC	5,215,000
Series Z	2,145,000
Total	$ 153,470,000

Bond defaults

On July 3, 2017, the Authority defaulted on the debt service principal amounting to $122.9 million of which $92.1 million was paid by the insurance company. In addition, the Authority defaulted interest debt service payments totaling $221.5 for the fiscal year ended June 30, 2018 of which $112.6 million was paid by the insurance company. Subsequent to June 30, 2018, as explained in Note 23 to the basic financial statements, the Authority has defaulted on all debt service principal and interest of all bond series. Without the taxes and other revenues conditionally allocated by the Commonwealth as explained above, the Authority has been unable to make the scheduled payments on its outstanding bonds and fund its reserve accounts accordingly.

14. BORROWINGS UNDER LINES OF CREDIT

The Authority has various unsecured lines of credit with the GDB. The lines of credit were due on various dates through January 31, 2016 and therefore were in default as of June 30, 2018, and remain in default as of the date these basic financial statements. The total aggregate amount outstanding under these lines of credit was approximately $1,733.7 million as of June 30, 2018, which amount bears interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin which range from 125 to 275 basis points (6.50% at June 30, 2018). During the fiscal year ended June 30, 2018, the total aggregate amount of interest expense on these lines of credits was approximately $106.46 million and the total aggregate amount of accrued and unpaid interest on such notes was approximately $538.4 million as of June 30, 2018.

15. RETIREMENT PLAN

The Authority's employees have historically participated in the Employees Retirement System (ERS) of the Commonwealth of Puerto Rico.

The following discussion provides information about ERS before the Pay-Go Reform described below:

Substantially all full-time employees of the Authority participate in the ERS. The Employees Retirement System was a statutory trust created by Act No. 447 of May 15, 1951, as amended ("Act 447"), and a component unit of the Commonwealth.

On April 4, 2013, the Governor of Puerto Rico, signed into law Act No. 3 of 2013, which represents a comprehensive reform of the ERS. Act No. 3, became effective on July 1, 2013 and amended the provisions of the different benefit structures under the ERS as further discussed below.

Members who had entered the ERS before January 1, 2000 participated in a defined benefit program. Members who began to participate prior to April 1, 1990 ("Act 447 Participants") were entitled to the highest benefits structure, while those who began to participate on or after April 1, 1990 ("Act 1 Participants") were subject to a longer vesting period and a reduced level of benefits, as provided by Act No. 1 of February 16, 1990 ("Act 1 of 1990").

In 1999, Act 447 was amended to close the defined benefit program for new participants and, prospectively, establish a new benefit structure similar to a cash balance plan (this new benefit structure is referred to as System 2000). Members who entered the ERS on or after January 1, 2000 (System 2000 Participants) participate solely in System 2000. Act 3-2013 amended the law to eliminate the lump sum distribution alternative and substitute it for a life annuity payable to the System 2000 Participant. System 2000 Participants do not benefit from any employer contributions. Instead, employer contributions made on account of System 2000 Participants are used to reduce the accumulated unfunded pension benefit obligation of the ERS. System 2000 is not a separate plan as there are no separate accounts for System 2000 Participants. Contributions received from System 2000 Participants are pooled and invested by the ERS together with the assets corresponding to the defined benefit structure of Act 447 and Act 1 of 1990 and the defined contribution structure of System 2000, as amended by Act 3-2013, was to be paid from the same pool of assets of the ERS.

Retirement and related benefits provided by the ERS and required contributions to the ERS by employers and employees, were determined by law rather than by actuarial requirements. As of July 1, 2011, after the adoption of Act 116 of July 6, 2011 ("Act 116"), the statutory employer contribution for the ERS increased from a minimum of 9.275% to a minimum of 10.275% of covered payroll and was supposed to increase annually until fiscal year 2021.

Required employee contributions for the ERS varied according to how the individual employee's retirement benefits were coordinated with social security benefits. Act 3-2013 increased the employee contribution from 8.275% to 10% of covered payroll.

The ERS provided basic benefits under the defined benefit program principally consisting of a retirement annuity and death and disability benefits (collectively referred to herein as Basic System Pension Benefits). The ERS also administered benefits granted under various special laws that have provided additional benefits for the retirees and beneficiaries (collectively referred to herein as System Administered Pension Benefits). The System Administered Pension Benefits included, among others, additional minimum pension, death and disability benefits, ad-hoc cost-of-living adjustments and summer and Christmas bonuses. Act 3-2013 and Act 160-2013 amended the various laws providing some of these System Administered Pension Benefits to reduce some of the amounts payable to existing retirees while eliminating the benefits for all future retirees (those retiring after June 30, 2013 and July 31, 2014).

On September 30, 2016, the ERS was designated by the Oversight Board as a Covered Territorial Instrumentality pursuant to PROMESA. On May 21, 2017, the Oversight Board filed a petition for the Retirement System in the United States District Court for the District of Puerto Rico, commencing a Tile III case for the Retirement System. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees in the Commonwealth's Title III cases.

After Act No. 106 became effective as discussed below, the System Administered Pension Benefits began to be funded on a pay-as-you-go basis by the participating employers, including the Authority. The System Administered Pension Benefits corresponding to former employees of the Authority are obligations of the Authority. Most of the funds used to cover the System Administered Pension Benefits for other covered employees are required to be paid by the Commonwealth.

PayGo Pension Reform

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations, and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new "pay-as-you-go" (PayGo) mechanism for the Commonwealth Retirement Systems. With the start of fiscal year 2018, employers' contributions, contributions ordered by special laws, and the additional uniform contribution were all eliminated. ERS will determine and administer the payment amount per retiree that will be charged to each agency, public corporation and municipality, including the Authority.

In addition to the establishment of the PayGo mechanism, on August 23, 2017, the Governor signed into law the Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants (Act No. 106), which reformed the Commonwealth Retirement Systems so that their active participants would deposit their individual contributions in a new Defined Contributions Plan, that will be managed by a private entity. Act No. 106 created the legal framework so that the Commonwealth can make payments to pensioners through the PayGo system. Approximately $2 billion was allocated for these purposes in each of the budgets for fiscal year 2018 and fiscal year 2019. Act No. 106 also created a Defined Contributions Plan, similar to a 401(k) plan, which mandates the contributions of public servants, because future benefits will not be paid by the Commonwealth Retirement Systems.

Act No. 106, among other things, amended Act No. 12 with respect to the ERS's governance, funding and benefits for active members of the actual program and new hired members. Under Act No. 106, the ERS's Board of Trustees was substituted with a new retirement board (the Retirement Board), which is currently responsible for governing all Commonwealth Retirement Systems.

Act No. 106 terminated the previously existing pension programs for ERS participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 will be enrolled in a new defined contributions program that will be selected by the Retirement Board. The accumulated balance on the accounts of the prior program will be transferred to the members account in the new defined contributions program. ERS's active members in the defined contributions program will retain their benefits as stated under Act 91 of March 29, 2003.

Act No. 106 also ordered a suspension of ERS's loan programs and ordered a merger of the administrative structures of the Commonwealth Retirement Systems. At the Retirement Board's discretion, the administration of ERS benefits may be externalized. The employees of ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act 8 of February 8, 2017.

The total amount paid by the Authority under the PayGo System during the year ended June 30, 2018 amounted to $31 million which represents 100% of the contributions required under the law.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

Until the PayGo Reform described above, the Authority was required to follow the provisions of Statement No. 68 of the Governmental Standard Board, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68,* which became effective for the year ended June 30, 2015. As the result of such reform, the Authority is required to implement the requirements of GASB Statement No. 73 of the Governmental Standard Board, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB 73) during the year ended June 30, 2018.

The most recent audited financial statements available of the ERS were as of June 30, 2016, where the ERS was severely underfunded with a net pension liability of approximately $37,699 million and its fiduciary net position of approximately negative $1,266 million. ERS has not issued its 2017 and 2018 basic financial statements, nor has it provided the Authority with the required information to fully implement the requirements of GASB 73 as of June 30, 2018. ERS has only provided the Authority with its proportionate share of the net pension liability, deferred inflow of resources and deferred outflow of resources calculated under the requirements of GASBS statement No. 68, which were recorded in the Authority's financial statements during the year ended June 30, 2017.

Because the Authority has been unable to implement GASB 73, it has not recorded the effect on the deferred outflows and inflows of resources related to pensions and the pension liability previously recorded under GASB 68, and has not recognized the effect of current period changes in the total pension liability as it relates to, deferred outflows of resources, deferred inflows of resources and pension expense for the year ended June 30, 2018.

In addition, the accompanying notes to the basic financial statements do not disclose the pension related information required by Statement No. 73.

Pension plan fiduciary net position

Additional information on ERS is provided in its standalone financial statements for the fiscal year ended June 30, 2016, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

16. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Authority agreed to provide medical, pharmacy, dental and vision medical insurance coverage to eligible retirees, its spouses and dependents, for a period of two years after retirement as a single employer defined benefit as Other Post-Employment Benefits Plan (the "Plan").

The OPEB can be amended by action of the Authority subject to applicable collective bargaining and employment agreements. The OPEB Plan does not issue a stand-alone financial report because there are no assets legally segregated for the sole purpose of paying benefits under the OPEB plan.

Funding Policy

The obligations of the Plan members' employer are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement.

The Authority currently contributes enough money to the OPEB Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the OPEB Plan are paid by the Authority.

GASB Statement No. 75

The Authority is required to implemented Governmental Accounting Standard Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* during fiscal year 2018. In addition to pension benefits as described in Note 15, the Authority administer a single-employer defined benefit other postemployment benefit (OPEB) plan as described above.

The Authority did not implement the requirements of Statement 75 because the actuarial information required for the implementation if not readily available.

Therefore, the Authority has not recorded the total post-employment benefits liability, deferred inflows of resources, deferred outflows of resources and other post-employment expense, and the Authority has not recognized the effect of current period changes in the total post-employment benefits obligation as it related to, deferred outflows of resources, deferred inflows of resources and other post-employment expense for the year ended June 30, 2018.

In addition, the accompanying notes to the basic financial statements do not disclose the pension related information required by Statement No. 75.

17. VOLUNTARY TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 of 2010 (Act No. 70) also established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. ERS will be responsible for benefit payments afterwards.

As of June 30, 2018, the Authority's total outstanding liability under this program was approximately $32.2 million and was discounted at 2.00% for early retirement benefits that will be provided to eligible employees that have completed between 15 years to 29 years of credited service in ERS and 0.56% for employee and the employer contributions to ERS to eligible employees that have 30 years of credited service in ERS and the age for retirement or have the age for retirement. As of June 30, 2018, the outstanding balance under Act No. 70 amounted to $32.2 million.

On December 28, 2015, the Commonwealth enacted Act. No. 211 of 2015 (Act No. 211), known as the Voluntary Early Retirement Law. Act No. 211 allows eligible active employees under ERS's Act No. 447 plan to participate in a voluntarily retirement program if they were hired before April 1990 and provided a minimum of twenty years (20) of service. The voluntary program, which was initially adopted during the fiscal year ended June 30, 2017, provides eligible participants with 60% of their average compensation determined as of December 31, 2015 until the employee attain age sixty-one (61). As of June 30, 2018, the outstanding balance under Act No. 211 amounted to $21.1 million. The liability under this program was discounted at 2.25%.

The aggregate adjustment for changes in discount rate under Act No. 70 and Act No. 211 during the fiscal year ended June 30, 2018 resulted in a benefit of $1 million and is recorded as part of the salaries and related benefits in the statement of revenues, expenses and changes in net position.

18. RELATED PARTY TRANSACTIONS

Operating expenses during the fiscal year ended June 30, 2018, included approximately $9.5 million of charges from Puerto Rico Electric Power Authority (PREPA), a component unit of the Commonwealth. In addition, during the year ended June 30, 2018, the Authority received charges from the Public Building Authority (PBA), a component unit of the Commonwealth of Puerto Rico, for rental of buildings amounting to approximately $791,000.

As of June 30, 2018, the Authority had approximately $55.5 million of receivables from the Commonwealth and its component units, which were reported in accounts receivable in the accompanying statement of net position. The individual receivables which comes substantially from previous fiscal years is overdue and has been fully reserved at June 30, 2018.

Due from Commonwealth of Puerto Rico relates to the operating transfers made to the Authority. This amount was collected subsequent to June 30, 2018.

Over the years, GDB, as fiscal agent and bank of the Commonwealth, had extended lines of credit to the Authority in order to finance capital improvement projects and operational deficits. As of June 30, 2018, the Authority has an outstanding balance of approximately $1,733.7 million under these lines of credit as explained in Note 14 to the basic financial statements. The total aggregate interest expense on these lines of credits recorded during the fiscal year ended June 30, 2018, was approximately $106 million. The total aggregate accrued interest on these lines of credit during the fiscal year ended June 30, 2018, was approximately $538.4 million.

Bonds payable included $200 million variable rate bonds, purchased by GDB from a third-party on May 19, 2014.

During the year ended June 30, 2018 the Authority received from the Commonwealth approximately $159 million for construction and maintenance of certain roads and bridges.

As of June 30, 2018, the Authority had amounts due to other governmental entities for operating leases, utilities, interest on line of credits and other agreements of approximately $62 million which are included in accounts payable and accrued liabilities in the accompanying statement of net position.

19. COMMITMENTS AND CONTINGENT LIABILITIES

Construction

As of June 30, 2018, the Authority had commitments of approximately $401.0 million related to construction contracts.

Leases

The Authority has various operating leases for office space with the Puerto Rico Public Buildings Authority, which is a related party. These leases expired in fiscal years 2003 and 2004. The contracts have not been renewed and the Authority continues to use the premises on a month to month basis. The total aggregate amount of rental expense recorded by the Authority on these contacts was approximately $791,000 during the fiscal year ended June 30, 2018.

Litigation

The Authority is defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction projects. The contractors are required, under the terms of the construction agreements, to carry adequate public liability insurance and to hold harmless the Authority from lawsuits brought on account of damages relating to the construction of the projects.

As of June 30, 2018, the Authority, based on legal advice, has recorded a liability of approximately $105 million for probable losses on those claims not fully covered by insurance. Outstanding legal liability is composed of $10.7 million of legal cases related to construction projects and $94.1 million related to expropriation and related costs. In the opinion of legal counsel, any liability in excess of the recorded liability that may arise from such claims would not be significant to the Authority's financial position or results of operations. Such losses may be treated as unsecured claims in the Authority's Title III case.

In connection with the Title III petition and other actions by the Authority, certain bondholders and other creditors filed legal cases against the Authority, the Commonwealth, and other government entities questioning the constitutionality or legality of PROMESA, Title III proceedings, the Moratorium Act and certain Executive Orders, among others. Some of these cases have been dismissed by the court overseeing the Title III cases (and affirmed by the United States Court of Appeals for the First Circuit) while others are in early stages or remain in the appellate process. Management, based on advice from legal counsel, believes that the outcome of these cases will not have a significant effect on the Authority's financial position and results of operations.

Federal Assistance Programs

The Authority participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, or to compliance audits by grantor agencies.

On March 31, 2014, FHWA approved $756.4 million in toll credits that may be applied toward the non-federal matching share of transit projects. These toll credits will remain available until used. Since inception, only $92.2 million in toll credits have been claimed, and there was an outstanding balance of $644.5 million for future federally aided projects as of June 30, 2018.

20. OPERATION AND MAINTENANCE OF URBAN TRAIN AND OTHER TRANSPORTATION SYSTEMS

Effective on July 1, 2017, the Authority entered into a new contract with ACI-Herzog for the purpose of operating and maintaining the Urban Train. This contract expires on June 30, 2032, with an option to extend the term for an additional two periods of not less than 5 years. In no event shall the term exceed 25 years. The compensation is based on a schedule included in the master agreement. The total annual operation and maintenance cost, for the fiscal year ended June 30, 2018, was approximately $48.4 million.

The Authority contracted First Transit of Puerto Rico, Inc. (First Transit) to operate the service known as Metrobus I, which consists of two express routes—Metrobus Route I and Metrobus Expreso—that provide service between the University of Puerto Rico and Old San Juan. The service is provided seven days a week using 24 buses owned by First Transit. The existing service agreement with First Transit expired on June 30, 2015 and was extended to June 30, 2018. The total aggregate expense amount under this contract was $14.4 million for the fiscal year ended June 30, 2018.

21. OTHER INCOME

Other income for the year ended June 30, 2018, consisted of:

	2018
Electronic toll fines and label sales	$ 54,204,197
Teodoro Moscoso revenues	1,785,324
Rental income	1,157,004
Impact fee	912,385
Metrobus fare fees	547,692
Others	1,538,818
Total	$ 60,145,420

22. SIGNIFICANT EVENT RELATED TO HURRICANES IRMA AND MARIA

On September 20, 2017, Hurricane Maria made landfall in Puerto Rico, bringing sustained winds of 155 miles per hour and significant rainfall over a 30-hour period. Hurricane Maria crossed Puerto Rico diagonally, entering through the Southeast and exiting through the Northwestern region. The hurricane caused catastrophic destruction in Puerto Rico, including severe damage to the electric power system, and left the island completely without power. Only two weeks prior to Hurricane Maria, Hurricane Irma—one of the strongest hurricanes ever recorded in the Atlantic—passed by Puerto Rico's north coast, substantially impairing an already weak infrastructure.

The hurricanes severely damaged or destroyed buildings, roads and bridges, most of which were fully depreciated, owned by the Authority and affected the operations of the Urban Train. The most significant damages are to the roads and bridges and these damages are not covered by insurance. The total impairment loss recorded by the Authority for damages associated with Hurricane Maria amounted to $2.8 million for the fiscal year ended June 30, 2018.

23. SUBSEQUENT EVENTS

Subsequent events were evaluated through March 25, 2019, the date the basic financial statements were available to be issued, to determine if such events should be recognized or disclosed in the Authority's fiscal year 2018 basic financial statements.

On July 2, 2018, the trustee notified the Authority that it failed to make a payment on principal and interest due on July 1, 2018 under the 1968 and 1998 Bond Resolutions in the total aggregate amount of approximately $128 million and $98.8 million, respectively. Of the total amount defaulted on, approximately $112.2 million and $60 million of principal and interest, respectively, was paid by the insurance company under the Authority's financial guarantee insurance policy.

From August 1, 2018 through March 1, 2019, the Authority defaulted on the monthly interest payments corresponding to the Puerto Rico Highways and Transportation Authority Transportation Revenue Bonds (Series A) Variable. The total aggregate amount of Series A interest expense defaulted on during this period was approximately $15.9 million. No insurance payments were made by insurance companies for that period.

From August 1, 2018 through March 1, 2019, the Authority defaulted on the monthly interest payments corresponding to the Puerto Rico Highways and Transportation Authority (Series N) - Consumer Price Index Fund Bonds (CPIFB). The total aggregate amount of Series N interest expense defaulted on during this period was approximately $1.4 million. The insurance company paid the full interest debt service defaulted.

On January 2, 2019, the trustee of the Authority notified the Authority that it failed to make the semi-annual payment on interest amounting to approximately $93.8 million. Of the total amount defaulted by the Authority, approximately $57.5 million in interest was paid by the insurance company under the financial guarantee insurance policy. This semi-annual payment excludes the series A - variable and Series N - CPIFB which are disclosed in the preceding paragraph.

GDB Qualifying Modification under Title VI of PROMESA

As described in Note 4 above, on November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA. Under the Qualifying Modification, holders of certain bond and deposit claims exchanged their claims for bonds issued by a newly created public instrumentality, the GDB Debt Recovery Authority, and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets and its unencumbered cash. As a result of the Qualifying Modification, the lines of credit owed by the Authority to GDB were transferred to the GDB Debt Recovery Authority.

In addition, pursuant to the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Authority (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. As a result of the foregoing adjustment, all of the Authority's deposits at GDB were extinguished as a result of the Qualifying Modification. Due to the closing of the Qualifying Modification and the wind-down of GDB, the Authority will also no longer be able to rely on GDB for future liquidity.

SUPPLEMENTARY INFORMATION

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR FISCAL YEAR ENDED JUNE 30, 2018

CFDA No.	program or cluster title/Federal grantor	Pass-Through Entity Identifyng Number	Total Federal Expenditures	Provided to Sub-recipients
	Federal Transit Cluster			
	Department of Transportation:			
20.507	Federal Transit Formula Grants		$ 14,235,297	$ 826,632
20.526	Bus and Bus Facilities Formula Program		344,430	344,430
	Total Federal Transit Cluster		14,579,727	1,171,062
	Transit Services Programs Cluster			
	Department of Transportation:			
20.513	Enhanced Mobility for Seniors and Individuals with Disabilities		2,803,142	2,803,142
20.516	Job Access and Reverse Commute Program		2,307,010	2,307,010
20.521	New Freedom Program		9,173	-
	Total Transit Services Programs Cluster		5,119,325	5,110,152
	Highway Planning and Construction Cluster			
	Department of Transportation:			
20.205	Highway Planning and Construction		89,969,066	839,199
	Other Programs:			
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research		728,868	128,975
20.509	Formula Grants for Rural Areas		212,399	212,399
	Total Other Programs		941,267	341,374
	Pass-through from Puerto Rico Traffic Safety commission:			
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	17-11-13	306,438	-
	Total Expenditures of Federal Awards		$ 110,609,385	$ 7,461,787

See notes to Schedule of Expenditures of Federal Awards.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR FISCAL YEAR ENDED JUNE 30, 2018

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Puerto Rico Highways and Transportation Authority (the "Authority") and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, and cash flows of the Authority. Therefore, some accounts in this schedule may differ from amounts presented in, or used in the preparation of the Authority's financial statements.

The Schedule includes federally funded projects received directly from federal agencies and the related amount of pass-through awards provided by the Authority to Sub-recipients.

2. RELATIONSHIP TO THE FINANCIAL STATEMENTS

Expenditures of federal awards are reported in the Authority's financial statements as construction in progress in the statement of net position and as expenses in the statement of revenues, expenses and changes in net position.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF REVENUES AND EXPENSES BY SEGMENT (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018

	Toll Roads	Integrated Transportation	Other	Total
Operating revenues:				
Toll fares	$ 110,827,935	$ -	$ -	$ 110,827,935
Train fares	-	4,954,846	-	4,954,846
Other income	55,367,555	901,723	3,876,142	60,145,420
Concession agreement	34,139,711	-	-	34,139,711
Total operating revenues	200,335,201	5,856,569	3,876,142	210.067.912
Operating expenses:				
Salaries and related benefits	6,299,733	878,282	29,860,023	37,038,038
Post-employment benefits	1,208,746	106,892	161,661	1,477,299
Toll highways administration and maintenance	36,303,249	-	-	36,303,249
Train operating and maintenance costs	-	47,471,335	-	47,471,335
Integrated transportation system	-	14,130,841	-	14,130,841
Repairs and maintenance of roads and bridges	6,032,185	-	18,932,953	24,965,138
Emergency repairs post Hurricane Maria	-	-	46,049,296	46,049,296
Impairment loss due to Hurricane Maria	-	-	2,849,131	2,849,131
Utilities	902,833	6,459,500	1,242,908	8,605,241
Other	10,320,610	11,908,396	17,354,563	39,583,569
Total operating expenses	61,067,356	80,955,246	116,450,535	258,473,137
Operating income (loss) before depreciation and amortization	139,267,845	(75,098,677)	(112,574,393)	(48,405,225)
Depreciation and amortization	117,778,796	135,898,611	200,792,631	454,470,038
Operating income (loss)	21,489,049	(210,997,288)	(313,367,024)	(502,875,263)
Non-operating revenues (expenses):				
Operating transfers from the Commonwealth of Puerto Rico	-	-	117,087,663	117,087,663
Other expenses	-	-	6,314	6,314
Operating grants	-	20,602,327	-	20,602,327
Interest on bonds and lines of credit	(85,134,738)	(98,232,390)	(144,074,172)	(327,441,300)
Principal and interest debt service paid by insurance company	53,223,659	61,411,914	90,070,806	204,706,379
Investment income	-	-	6,365,848	6,365,848
Net change in fair value of investments	-	-	(80,337)	(80,337)
Custodial credit risk loss on deposits with government bank	-	-	(44,493)	(44,493)
Total non-operating revenues (expenses), net	(31,911,079)	(16,218,149)	69,331,629	21,202,401
Loss before capital contributions	(10,422,030)	(227,215,437)	(244,035,395)	(481,672,862)
Capital grants (U.S. Federal and Commonwealth)	36,787,626	20,946,757	193,579,113	251,313,496
Change in net position	$ 26,365,596	$ (206,268,680)	$ (50,456,282)	$ (230,359,366)

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Puerto Rico Highways and Transportation Authority
(a Component Unit of the Commonwealth of Puerto Rico):

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Puerto Rico Highways and Transportation Authority (a Component Unit of the Commonwealth of the Puerto Rico) (the “Authority”), which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 25, 2019. We also included an emphasis-of-matter paragraphs in our report on the financial statements because of the uncertainty of the Authority’s ability to continue as a going concern. Our report included a qualified opinion because the Authority has not implemented the requirements of Statement No. 73 of the Governmental Accounting Standard Board, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* and Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* because the information required for the implementation is not readily available.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

BDO

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2018-001 and 2018-002, described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-003 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

BDO

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO Puerto Rico PSC

San Juan, Puerto Rico
March 25, 2019

Certified Public Accountants
(of Puerto Rico)
License No. 53 expires December 1, 2021
Stamp E370674 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
Puerto Rico Highways and Transportation Authority
(a Component Unit of the Commonwealth of Puerto Rico):

Report on Compliance for Each Major Federal Program

We have audited the Puerto Rico Highways and Transportation Authority (a Component Unit of the Commonwealth of Puerto Rico) (the "Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2018. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

BDO

Basis for Qualified Opinion on Job Access and Reverse Commute program

As described in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding CFDA 20.516 - Job Access and Reverse Commute Program as described in finding 2018-004 for Sub-recipients monitoring. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

Qualified Opinion on Job Access and Reverse Commute program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Authority complied, in all materials respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Job Access and Reverse Commute Program for the year ended June 30, 2018.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditors' result section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2018.

Authority's Response to Findings

The Authority's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

BDO

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-004 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-005 to be a significant deficiency.

The Authority's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

BDO

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BDO Puerto Rico PSC

San Juan, Puerto Rico
March 25, 2019

Certified Public Accountants
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affixed to the file copy of this report

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTION COSTS
FOR THE YEAR ENDED JUNE 30, 2018

SECTION I - SUMMARY OF AUDITORS' REPORT

1. Type of auditors' report issued	Qualified
2. The independent auditors' report on internal control over financial reporting described:	
a. Significant deficiencies noted considered material weaknesses	Yes
b. Significant deficiencies noted that is not considered to be a material weaknesses	Yes
3. Noncompliance considered material to the financial statements was disclosed by the audit	No
4. The independent auditors' report on internal control over compliance with requirements applicable to major Federal awards described:	
a. Significant deficiencies noted considered to be a material Weaknesses	Yes
b. Significant deficiencies noted that is not considered to be a material weakness	Yes
5. The opinion expressed in the independent auditors' report on compliance with requirements applicable to major Federal awards	Qualified: 20.516 Unmodified: All Other
6. The audit disclosed findings to be reported as required by the Governmental Auditing Standards and Uniform Guidance	Yes

7. The Authority's major programs were:

Name of Federal Program or Cluster	CFDA No.
Highway Planning and Construction	20.205
Federal Transit Formula Grants	20.507
Bus and Bus Facilities Formula Program	20.526
Formula Grants for Rural Areas	20.513
Transit service programs	20.516
New Freedom Program	20.521

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in 2 CFR 200.516(a)	$3,000,000
9. Auditee qualified as a low risk auditee under the Uniform Guidance	No

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTION COSTS
FOR THE YEAR ENDED JUNE 30, 2018

SECTION II FINANCIAL STATEMENTS FINDINGS

2018-001 (Material Weakness in Internal Control over Financial Reporting)

Criteria
A well documented and established year end close process serves to detect errors and prevent them from accumulating within a particular period. The strength of this process also helps to ensure that the monthly and annual financial information reported to management and the board of directors, from which key decisions are made, is a meaningful and reliable as possible.

Condition
During our audit we noted certain errors in the presentation and recording of financial statements amounts resulting in proposed audit adjustments. These were necessary to correct various accounts and balances in the financial statements to conform their presentation with accounting principles generally accepted in the United States of America.

Effect
A material misstatement in the financial statement of the Authority may not be prevented or detected and information used by management to make decisions may be inaccurate.

Cause
The Authority lacks a well-designed and efficient annual and month-end closing process that would entail timely preparation and review of monthly reconciliation of significant account balances.

Recommendation
Management should establish a well-designed and efficient annual and month-end closing process that would entail timely preparation and review of monthly reconciliation of significant account balances. This could be accomplished by the development of a comprehensive checklist that covers all the procedures that the Authority determines necessary to be performed on a periodic basis including, but not limiting to, month-end procedures and the persons responsible for such procedures.

Views of Responsible Officials and Planned Corrective Actions
The Authority has a formal procedure (Procedure #09-09-38) for accounting closings which assigns duties among the accounting staff in order to minimize post-closing and audit adjustments at year-end. Measures have been taken to minimize the adjusting entries at the end of the current fiscal year. For the 2018 fiscal year audit, the audit adjustments decreased by 33% when compared with 2017. Various significant audit adjustments proposed in 2017 and 2018 are related with the delay of support information that comes from the central government. For fiscal year 2019, The Authority has a formal plan to complete the closing process by September 30, 2019 and to submit the 2019 Single Audit by March 31, 2020.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTION COSTS
FOR THE YEAR ENDED JUNE 30, 2018

2018-002 (Material Weakness in Internal Control over Financial Reporting)

Criteria
The Authority has controls deficiencies in its internal control over maintaining appropriate supporting evidence for recording and monitoring toll revenues.

Condition
The Authority relies on a third-party service provider for the administration and processing of the tolls collected in the Authority's toll roads. When an entity outsource tasks or functions to a third party, the user organization, in this case the Authority, needs to monitor the risks associated with the outsourcing, particularly risks related to how the service organization performs the task or functions and how that may affect the user entity's financial reporting.

Effect
Errors or irregularities in the information provided by the third-party service provider might not be detected and corrected on a timely basis resulting in material misstatement in the financial statements.

Cause
The Authority does not have processes in place to assess and validate controls in place at the third party service provider. We were not able to ascertain that the information received from the third-party service organization is validated by the Authority. In addition, the third-party service provider does not prepare or submit to the Authority the Service Organization Controls Report ("SOC Report"). This report focuses on controls at the service organization that affects the Authority's financial reporting and safeguarding of assets. The lack of these controls and procedures could lead to inaccurate financial reporting of toll revenues.

Recommendation
Management must perform monthly independent reconciliation and reviews of the information provided by the third-party service provider. In addition, the Authority should obtain and review the SOC report for this service provider.

Views of Responsible Officials and Planned Corrective Actions
The Authority initiated a bid process to select a new third party service provider after the termination of the contract with GILA effective January 1, 2019. In the request for proposal published in November 2018, the requirement to perform a Service Organization Report (SOC Report) was included to validate the controls of the third-party service provider in the financial reporting of the toll revenues.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTION COSTS
FOR THE YEAR ENDED JUNE 30, 2018

2018-003 (Significant Deficiency in Internal Control over Financial Reporting)

Criteria
Construction in process (CIP) consists of construction projects subject to capitalization, either tangible or intangible in nature. When a capital asset project is completed, the related asset is added directly to capital assets at the time of completion. A project is considered completed when upon the earlier occurrence of; substantial completion, occupancy, when the asset is placed into service or when it is ready for its intended use.

Condition
During our audit we noted that various projects included in CIP which were capitalized by the wrong amount. In some cases the projects were capitalized for an amount in excess of the amount recorded in CIP and in other cases the projects were capitalized for an amount less than the amount recorded in CIP. In addition, the management performed a maintenance of the CIP subsidiary, which resulted in inaccurate activity for the current fiscal year.

Effect
Construction in process and related capital assets are not properly recorded in the accounting records.

Cause
These errors are the result of lack of controls to determine the total cost incurred in a project and when the project should be capitalized. The result of this practice is capital assets recorded by the wrong amount with the corresponding overstatement or understatement in depreciation expense. Disclosure about the CIP current activities may be inaccurate.

Recommendation
Management should enhance its current process to accumulate and record capital assets additions, deletions and transfers on a timely basis. Communications with construction departments should be improved to obtain the necessary information for proper capital assets transactions.

Views of Responsible Officials and Planned Corrective Actions
During the fiscal year 2018, the Authority approved a plan to obtain a new version of the finance system that will provide updates of the projects balances on a daily basis. Also, the Authority will improve the project management system to perform information interfaces with the finance system. Both projects are included in the Memorandum of Understanding (MOU) signed in February 2016 and will be completed by March 31, 2020.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
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SCHEDULE OF FINDINGS AND QUESTION COSTS
FOR THE YEAR ENDED JUNE 30, 2018

SECTION III - FEDERAL AWARD FINDINGS AND QUESTION COSTS

2018-004 (Material Weakness and Non-Compliance in relation to a Compliance Requirement)

Federal Program
20.516 Job Access and Reverse Commute Program

Federal Grantor/Office
U.S. Department of Transportation
Federal Transit Administration (FTA)

Compliance Requirement
Sub-recipient Monitoring

Criteria
A Sub-recipient is a nonfederal entity that expends federal awards received from a pass-through entity ("PTE"), in this case the Authority, to carry out a federal program. The Uniform Guidance requires the PTE, among others, to: (1) clearly identify to the Sub-recipient the award as a subaward at the time of the subaward by providing the information described in 2 CFR section 200.331(a)(1), all requirements imposed by the PTE on the Sub-recipient so that the federal award is used in accordance with federal statutes, regulations, and the terms and conditions of the award [2 CFR section 200.331(a)(2)], any additional requirements that the PTE imposes on the Sub-recipient in order for the PTE to meet its own responsibility for the federal award (e.g., financial, performance, and special reports) [2 CFR section 200.331(a)(3)], to evaluate each Sub-recipient's risk of noncompliance for purposes of determining the appropriate Sub-recipient monitoring related to the subaward [2 CFR section 200.331(b)], and to Monitor the activities of the Sub-recipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals [2 CFR sections 200.331(d) through (f)].

Condition
During our audit, we could not verify documentation that supports the Sub-recipient monitoring activities as required by laws and regulations. Funds passed to the Sub-recipient for program 20.516 amounted to $2,307,010 during the year ended June 30, 2018.

Effect
Not compliance with programs laws and regulations are not detected on a timely basis.

Cause
Sub-recipient monitoring activities are limited to the review and verification of the reimbursement request submitted by the Sub-recipient. Management understand that this procedure is sufficient to comply with the requirements of the Uniform Guidance.

Recommendation
Management should establish policies and procedure to support the Sub-recipient monitoring activities in accordance with the Uniform Guidance. Failure to do this could result in question costs by the Federal Awarding Agency.

Views of Responsible Officials and Planned Corrective Actions
To be in compliance with this requirement, the Authority will revise the policies and procedures to improve the monitoring activities in accordance with the Uniform Guidance. The monitoring activities will include reporting, site visits, regular contact or other means to provide reasonable assurance that the sub recipient administers the federal funds for authorized purposes and in compliance with the terms of the sub award.

2018-005 (Significant Deficiency and Non-Compliance in relation to a Compliance Requirement)

Federal Program
20.205 Highway Planning and Construction (Federal Aid Highway Program)

Federal Grantor Office
U.S. Department of Transportation
Federal Highway Administration ("FHWA")

Compliance Requirement
Matching

Criteria
Per letter dated March 31, 2014, FHWA approved toll credits amounting to approximately $756 million to be applied toward the non-federal matching share of programs authorized by Title 23, U.S.C. except the credit may not be applied to projects funded with FHWA's emergency relief fund. Additionally, the credit may be applied to transit programs authorized by Chapter 53 of Title 49, U.S.C. As required by the letter the Authority must establish standard operating procedures and a special account to track appropriate toll credits.

Condition
The Authority maintains an analysis of the toll credits applied to each project on an Excel spreadsheet. The Excel spreadsheet contains the unused amount of the toll credits and the estimated costs of each project as approved by FHWA. The amount of the unused credit is calculated based on the project estimated original and contracted cost but this calculation is not updated with actual cost incurred in each project.

Effect
Since the amount of the unused toll credit is calculated using the project original estimated costs rather than project actual cost this could result in an incorrect amount of unused toll credit.

Cause
The record used by the Authority to maintain the unused credits is not updated regularly.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
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SCHEDULE OF FINDINGS AND QUESTION COSTS
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Recommendation
The Authority should establish procedures to account properly the amount of toll credits applied to each project in order comply with the requirements of FHWA letter dated March 31, 2014. The record maintained by the Authority should take into account the actual costs incurred in a project rather than estimated costs.

Views of Responsible Officials and Planned Corrective Actions
The manual process of reconciling the toll credits will be automated when the PMIS program will be functional by March 31, 2020. As per Section II of the Memorandum of Understanding (MOU) signed in February 2016 between FHWA and the Authority, the toll credits tracking, reconciling and approval process were reviewed by FHWA PR Division for compliance.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

Finding 2017-005 - Subrecipient monitoring

Program: 20.516

CFDA Program Title: Job Access and Reverse Commute Program

Condition: We could not verify documentation that supports the Sub-recipient monitoring activities as required by laws and regulations as part of the single audit for the fiscal year June 30, 2017.

Current status: Not corrected. Reported as finding 2018-004 in current year.

Finding 2017-006 - Matching

Program: 20.205

CFDA Program Title: Highway Planning and Construction (Federal Aid Highway Program)

Condition: The Authority maintains an excel spreadsheet of the toll credits used but it is not up-to-date. This tracking tool contains the unused amount of toll credits using the estimated cost of each project as approved by FHWA, but not updated to reflect actual costs toward the completion of the projects.

Recommendation: The Authority should establish procedures to account properly the amount of toll credits applied to each project in order comply with the requirements of FHWA letter dated March 31, 2014. The record maintained by the Authority should take into account the actual costs incurred in a project rather than estimated costs.

Current status: Not corrected. Reported as finding 2018-005 in current year.

Finding 2017-007 - Activities allowed

Program: 20.205

CFDA Program Title: Highway Planning and Construction (Federal Aid Highway Program)

Condition: In a sample of 70 payments to contractors, in three instances costs not included in the approved project plans, specifications and estimates were charged to the federal projects. The items in the sample amounted to $36,876,760 and the total amount of the population amounted to $93,273,124. The items not in compliance amounted to $74,746 and were charged to project MP-2(71), LP-9(6) and MP-110(10) in the amounts of $13,558, $60,690 and $498, respectively.

Recommendation: The Authority should establish controls and procedures to properly supervise personnel in its functions and to provide training to new personnel as the agency relocates them from other departments.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
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Current status: Corrected. No similar instances noted during fiscal year ended June 30, 2018.

Finding 2017-008 - Special Tests and Provisions - Quality Assurance Program

Program: 20.205

CFDA Program Title: Highway Planning and Construction (Federal Aid Highway Program)

Condition: Although the Authority has a quality control program and action plan to achieve the quality control requirement, the same has not been approved by FHWA.

Recommendation: Procedures should be established to ensure that the Authority complies with program laws and regulations at all times.

Current status: Corrected during fiscal year ended June 30, 2018.

Puerto Rico Highways and Transportation Authority
(a Component Unit of the Commonwealth of Puerto Rico)
CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
June 30, 2018

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	The Authority has a formal procedure (Procedure #09-09-38) for accounting closings which assigns duties among the accounting staff in order to minimize post-closing and audit adjustments at year-end. Measures have been taken to minimize the adjusting entries at the end of the fiscal year. The most significant journal entries for 2018 fiscal year were not previously recorded during the monthly closing procedures because the Authority did not receive the necessary information from Central Government.	June 30, 2018	Luis Kevin Santiago Reyes, Finance Interim Sub-Director
2018-002	During the 2019 fiscal year, the Authority initiated the process to improve the toll collection system. In the request for proposal published in November 2018, the requirement to perform a Service Organization Report (SOC Report) was included to validate the controls of the third-party service provider in the financial reporting of the toll revenues.	June 30, 2020	Javier E. Hernandez Carreras, Auxiliary Executive Director for Administration and Finance
2018-003	During the 2018 fiscal year, the Authority approved a plan to obtain a new version of the finance system that will provide updates of the projects balances on a daily basis. Also, the Authority will improve the project management system to perform information interfaces with the finance system. Both projects are included in the Memorandum of Understanding (MOU) signed in February 2016. The project management system will be completed by March 31, 2020.	June 30, 2020	Angel M. Felix Cruz, Finance Director
2018-004	In compliance with this requirement, the Authority will revise the policies and procedures to improve the monitoring activities in accordance with the Uniform Guidance. The monitoring activities will include reporting, site visits, regular contact or other means to provide reasonable assurance that the sub recipient administers the federal funds for authorized purposes and in compliance with the terms of the sub award.	June 30, 2020	Sonia Montanez, Federal Coordination Office Director
2018-005	The manual process of reconciling the toll credits will be automated when the PMIS program will be functional by March 31, 2020. As per Section II of the Memorandum of Understanding (MOU) signed in February 2016 between FHWA and the Authority, the toll credits tracking, reconciling and approval process were reviewed by FHWA PR Division for compliance.	June 30, 2020	Ing. Ana L. Torres, Federal Liaison Office Director